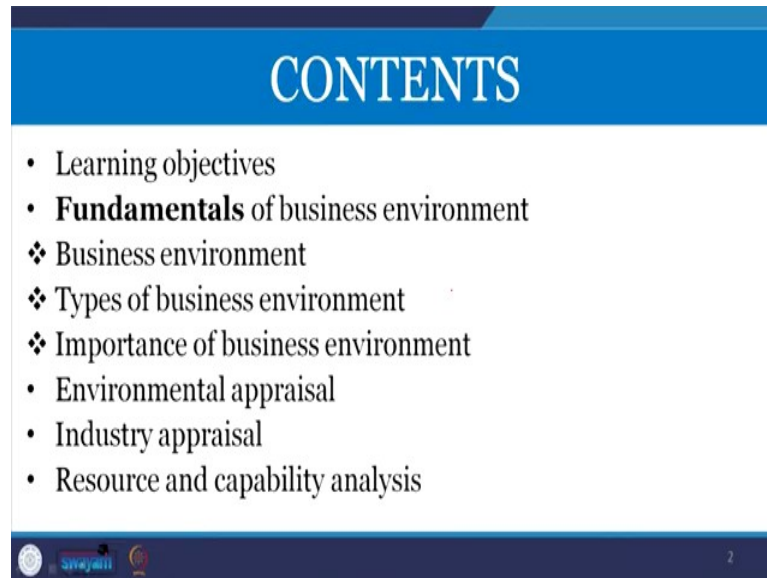


Principles of Management
Prof. Usha Lenka
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Lecture – 10
Planning- II

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CONTENTS	
•	Learning objectives
•	Fundamentals of business environment
❖	Business environment
❖	Types of business environment
❖	Importance of business environment
•	Environmental appraisal
•	Industry appraisal
•	Resource and capability analysis

So, today we will discuss about the business environment and how business environment is useful. Learning objectives for this business environment is fundamentals of business environment. Then we will discuss about the business environment at large, types of business environment, then importance of business environment, environmental appraisal, industry appraisal, resource and capability analysis.

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BUSINESS ENVIRONMENT

- ❖ **Business environment** is defined as:
"The sum total of all individuals, institutions, and other forces that are outside the control of a business enterprise, but affect the overall performance and sustainability of the business. Business organizations are inter-dependent on all these factors"
- ❖ Organizations operate in a pluralistic society, i.e. Address to multiple interest of stakeholders.
- ❖ Many groups exert influence on business and it is important for organizations **to be aware of the actions and strategies** of different groups.
- ❖ **Business environment** enables firms to analyze the strategies and actions of interest groups.



Business environment is the sum total of all individuals, or groups institutions, and other forces that are outside the control of a business organization or enterprise, but affect the overall performance and sustainability of business. So, business environment or business organizations are inter-dependent on all these factors.

A business in organizations makes its plans. As discussed in the previous section we discussed about the planning, how managers plan their strategies, plan their actions. So, the strategies are being planned, strategies or goals are decided based on assessment of business environment.

Every time manager plans, they need to take into account all the stake holders and their needs and interests. So, organizations operate in a pluralistic society. So, what is a pluralistic society? We will first discuss that an organization cannot operate in silos, they are interdependent on several factors. Within the organization, there is an interdependence.

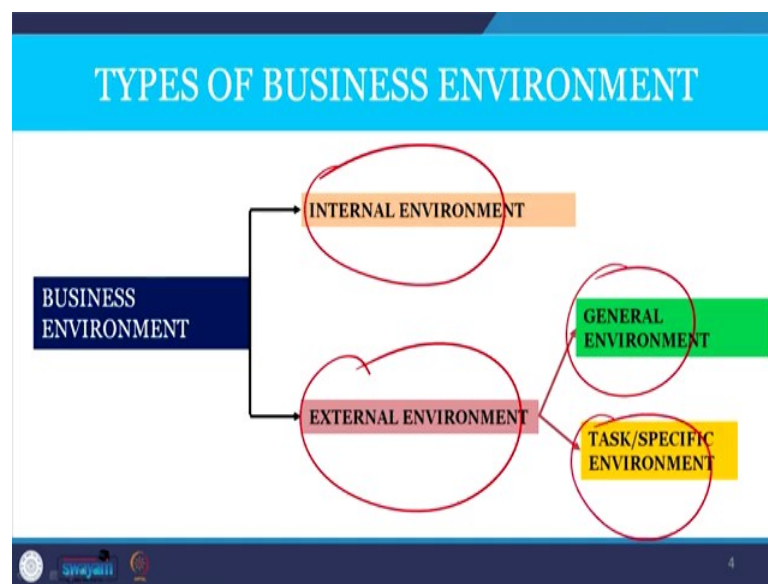
If we recall, we discussed about open systems approach. In the open systems theory, an organization takes input from external environment process through various procedures and various management functions within the organization, and it transforms the raw materials into finish products. And the products and services which are outcome of the various processes which is meant for use by external environment, the stakeholders in external environment, be it customers or the consumers.

So, there is an interdependence of all these factors in the organization, and also there are various stake holders who also have an interest with the organization, so that means, organization operates in a pluralistic society and addresses the needs of multiple stakeholders, needs and interest of multiple stake holders.

Many groups exert influence on the business and its important for organizations to be aware of all these groups – the multiple groups, multiple stake holders and their interests and needs awareness of the actions and strategies of different groups is very important.

Business environment enables firms to analyze the strategies and actions of the interest groups for the stakeholder groups. So, based on assessment of multiple stakeholders interest, an organization can plan or the managers can plan their actions accordingly.

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So, let us have a holistic overview of business environment. Business environment has two major components, internal environment and external environment. External environment consists of a general environment and task or specific environment.

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Then we will discuss about each of them in more details. Internal environment consists of employees, organizational, culture and the management. The task or specific environment consists of competitors, suppliers, labor market and customers. Then general environment which consist of technological environment, socio-cultural factors, economic forces, legal and political environment, and international factors.

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TYPES OF BUSINESS ENVIRONMENT

- ❖ Internal environment consists of conditions and forces within the organization.
- ❖ The internal environment is composed of:
 - ❑ owners (people having legal property rights of business)
 - ❑ board of directors (governing body elected by shareholders and oversee firm's general management)
 - ❑ employees ✓
 - ❑ physical work environment (location of organizations, nature of work and health/safety facilities)
 - ❑ corporate culture (set of values, beliefs, behaviors, customs, and attitudes that helps members understand what organization stands for, how it does things, and what it considers important)
- ❖ Internal environment defines how well the organization will adapt to the external environment.

So, internal environment, it consists of conditions and forces within the organization. What are the prevailing conditions or the culture of an organization? The forces within the organization, the bases of power and politics within the organization which may influence the plans or decisions of an organization or the decisions of managers.

The internal environment is composed of owners. Owners or proprietors, people who have legal property rights of the business, the owners of the business. Board of directors are governing body who are elected by shareholders, and who oversee the firms' general management. They just take care of the general administration of an organization. Then it also consists of employees. Employees are otherwise also called internal customers or internal stakeholders.

Physical work environment, the environment in which the employees and stakeholders or owners work; locations of organizations, nature of work and health and safety measures. Corporate culture organizations culture which consist of the shared values believes and customs, rituals attitude that guide overall the behavior of employees. The culture helps to members understand what does an organization stand for, and how does it do things, and what it considers to be important.

For example, Apple has culture of flexibility, innovation. So, the people in general understand that Apple gives importance to the general environment or the corporate culture of Apple gives importance on openness, innovation, sharing of information, information sharing, or knowledge sharing, creativity and innovation.

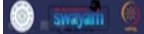
If an organization is highly bureaucratic, bureaucratic in the sense there is a top-down approach with authority in the top management or the centralization, or there is high formalization, or rules and regulations are rigidly followed, rules and regulations are strictly followed. In such an organization generally the employees have a belief that they are supposed to be bound by those rules and regulations which are stringent, so that guides the behavior of people.

So, there is a standardization in the approach, standardization in the processes. Internal environment defines how well the organization will adapt to external environment. So, this is internal environment will define how the organization will adapt to the external environment and the changes in the external environment.

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TYPES OF BUSINESS ENVIRONMENT

- ❖ **External environment** is everything outside an organization's boundaries.
- ❖ **Examples**, suppliers, competitors, consumer groups, media, government, customers, economic conditions, market conditions, investors, and technology.
- ❖ These **forces influence the business**.
- ❖ For example, changes in tax policies by the government can make the customers buy less. Here the business would have to re-establish its prices to survive the change. Even though the business had no involvement in initiating the change it still had to adapt to it in order to survive or make profits.
- ❖ **Two layers of external environments:**
 - ☒ General environment (technological, sociocultural, economic, and legal-political dimensions)
 - ☒ Task/specific environment (competitors, suppliers, and customers)


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Now, let us discuss about external environment. What is an external environment? What are the major constituents of external environment? External environment is something which is outside the organizations boundary, something which is beyond organizations control.

Examples of the constituents or elements of external environment – suppliers, competitors, consumer groups, media, government, customers, economic conditions, market conditions, investors, and technology, and so on. So, these forces which are dominant or elements of external environment have an influence on the business.

For example, changes in tax or reforms in tax policies, changes in tax policies can have an influence on the business organizations. Customers buy less, here the business would have to reestablish its prices to survive the change or to sustain the change even though the business had no involvement in initiating the change. It still has to adapt in order to survive or make profits.


There are two layers of external environment or two factors or two elements of external environment. One is general environment; another one is task or specific environment. General environment consists of technological, socio-cultural, economic, and legal-political dimensions. Task and specific environment consist of competitors, suppliers, and customers.




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TYPES OF BUSINESS ENVIRONMENT

General environment influence the organization over time but often are **not involved in day-to-day transactions**.

- ❖ The **dimensions of the general environment** include:
- ❖ **technological**
- ❖ **social**
- ❖ **economic**
- ❖ **legal-political**.









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So, general environment influence on organizations over time, but often are not involved in day-to-day transactions. The dimensions of general environment are technological factors, social factors, economic, legal and political factors.

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TYPES OF BUSINESS ENVIRONMENT

- ❖ **Technological dimension** includes scientific and technological advancements in a specific industry as well as in society at large. Computer networks, Internet access, handheld devices, videoconferencing, cell phones, fax machines, and laptops are the **minimum tools** for doing business.
- ❖ **Social dimension** represents the demographic characteristics as well as the norms, customs, and values of the general population. Important sociocultural characteristics are geographical distribution and population density, age, and education levels.
- ❖ **Economic dimension** represents the general economic health of the country or region in which the organization operates. Consumer purchasing power, the unemployment rate, and interest rates are part of an organization's economic environment.




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Technological dimensions include scientific and technological advancements. For example, with latest trends in technology or adaptation of new technology, say for example, Boeing had to switch over from analog to digital technology.

In a specific industry, any industry there is a revolution which is caused by changes in technology or adaption of new technology which will have an impact on how the

business organizations run. Computer networks, internet access, handheld devices, video conferencing, cell phones, fax machines, and laptops, are the minimum tools of doing business.

Earlier say let us take an example because of advent of video conferencing or information technology in business. So there are changes in the recruitment policy. Earlier in the recruitment process the prospective candidate had to appear in person to appear for an interview process.

Whereas, today even interviews are conducted over video conferencing, meetings are held over video conferencing, where technology has made the life's of employees, life's of people, life's of stakeholders at ease. Technology has transformed and has been a game changer in the business world.

Social dimensions represent the demographic characteristics. The demographic factors such as norms, customs and values of the general population, they have also influenced the business originations plans. Important socio-cultural characteristics are geographical distribution and population density, age and education level. Age and lifestyle factors, education level has also influenced business decisions.

Economic dimensions represent a general economic health, economic health of the country or region in which organization operates. Consumer's purchasing power the unemployment rate and interest rates are part of an organizations economic environment.

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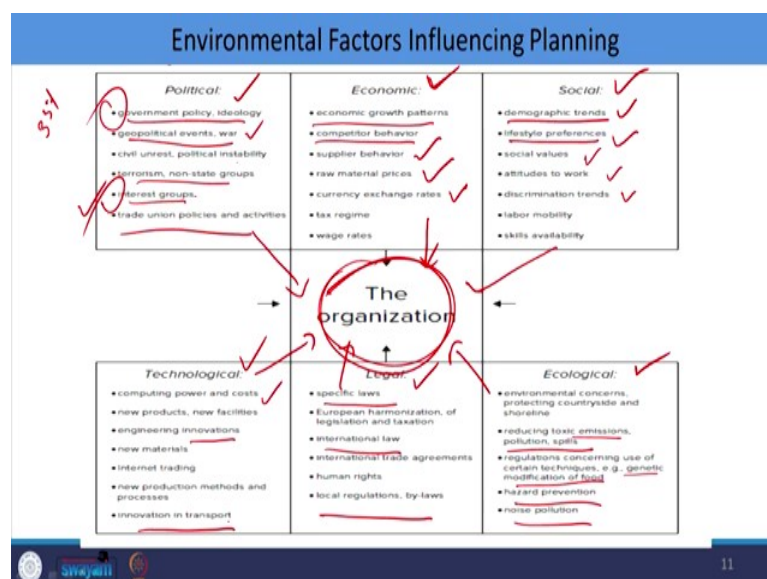
TYPES OF BUSINESS ENVIRONMENT

- ❖ **Legal-political dimension** includes *government regulations* at the local, state, and federal levels, as well as *political activities* designed to influence company behavior. Government laws specify rules of the game.
- ❖ Many organizations (especially multinational enterprises) also have to contend with government and legal issues **in other countries.**
- ❖ Managers must also recognize a variety of **pressure groups** that work within the legal-political framework to influence companies to behave in socially responsible ways.

Legal-political dimensions include government regulations in the local, state, and federal levels, as well as political activities designed to influence company behavior. For example, the government laws specify rules of the game. Many organizations especially multinational enterprises have to contend with government and legal issues in other countries. Managers must recognize a variety of pressure groups.

So, therefore, if all these factors in the business environment have an influence on the decisions and plans of organizations, there must be an assessment of the pressure groups that work within the legal-political framework to influence companies to behave in socially responsive way. So, we will discuss about each of them in more details.

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Environmental factors influencing the planning process or the planning and strategic decision making. As we have seen organization is responsive to various factors in the external environment. The factors in the external environment as discussed now is the political factor, economic factor, social factors, ecological, legal and technological factors.

Let us take each one in more details. The political factors – government policies, ideology, political events or wars, civil unrest, political instability, terrorism, non-state groups, interest groups, trade unions and trade union policies have an influence on organization.

Government policies, say for example, Government Policy in India, there is a change in government policies towards employing more women. There is a reservation policy 33 percent of women need to be given employment, or there should be reservation for women, which has influenced and given a kind of mandatory clause for organization to hire more women in organizations.

Geopolitical events – wars or some kind of political geopolitical factors have an influence on the decisions of organizations. Civil unrest or terrorism, these have influenced organizations decisions. Interest groups, the pressure, public pressure groups or interest groups has an influence on business organizations which lead to changes or they have to be more responsive to the changes or the pressures which have been laid by the interest group.

For example, McDonald – a US based organization or when it has grown or expanded its operations in different countries. Let us take an example of India. When McDonald ventured in Indian market, so the products were rejected or there was a hue and cry by the public interest group giving a reason that the product has beef in its content.

So, as a result, the products were there was mass rejection, and McDonald had to change its decision to have different type of product in Indian market, they removed the beef in the content in the product, and they had to be more adaptive to the Indian culture and the preferences and needs of people.

So, next factor we will discuss about economic factors. Economic growth patterns, competitor behavior, behavior of competitors, suppliers, raw material prices, currency

exchange rates, tax regimes and wage rates, also influence the change in wage rates. The tax regimes influence the corporate decisions and the plans. Social factors, demographic trends as we know that the people have different preferences and needs.

Each age group has a different preference about the products and services. Lifestyle of people are changing. Lifestyle, people now are more conscious about the health. So, as a result, there is more awareness amongst the organizations to have products which are suiting or which are more suitable to the needs of the demographic trends and the lifestyle preferences of people. So, organization is taking care of the needs and preferences of each of the stake holder group.

Social values, attitude to work, discrimination trends, labor mobility, and skill availability also influences availability of skills, availability of labor, it also influences decision making of organizations.

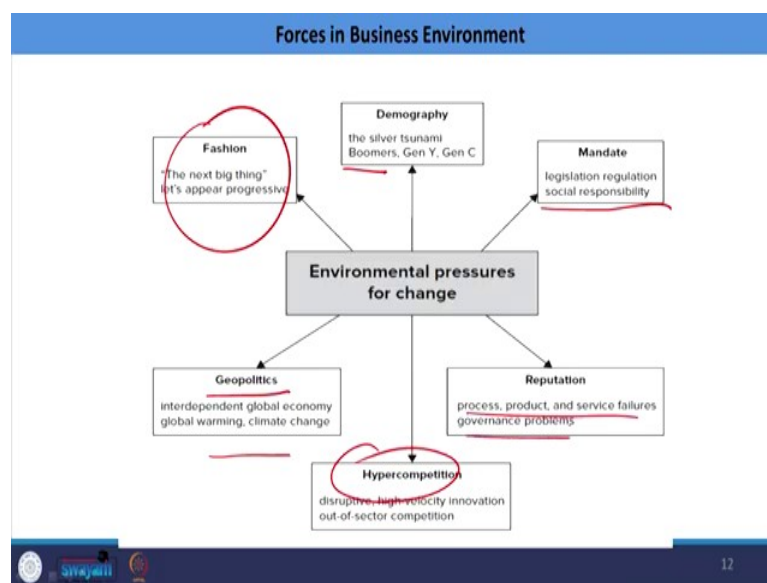
Ecological factors, environmental rising, concern of environment, protecting environment. So the actions of organizations are influenced by these concerns reducing toxic emissions, pollutants, and regulations concerning use of certain techniques like genetic modification of food, hazard prevention, noise pollution.

So, organization has to be more concern towards the needs of ecology or to maintain an ecological balance concern for planet, the soil, land, water and air. So, the product should be free from any kind of pollutants which will not disturb the ecological balance. Legal factors – specific laws of the land, then international law, international trade agreements, human rights, local regulations by laws, also influence the organizations decision making.

Technological factors like computing power and cost, new products, the demand for new products, new facilities, innovations, innovations in products. Apple has been innovating new products much in advance taking care of the, or maybe they are concerned towards the needs of customers.

So, their planning about the new product in order to be more responsive to the changing preferences, changing demands of customers. Internet trading, new production methods, innovation in transports. So, these are the factors in changing technological factors which have influenced organizations and its organizations and its decisions.

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Overall forces in business environment. If we look at the forces, one is hyper competition, disruptive and high velocity innovation, out of sector competition. There is intense competition within each environment there is intense rivalry. Let us take an example of telecom sector.

Earlier there was monopoly of BSNL. Then many new entrants came after the changes of liberalization in trade policies. So, the advent of liberalization, globalization, there were many players in the market which led to increase in or rise in competition.

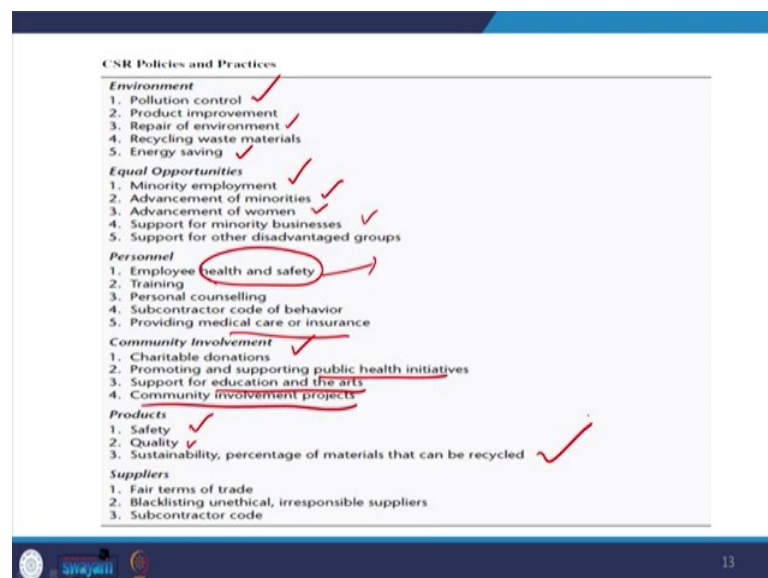
As a result, to be more sustainable or to be more competitive, the organization has to respond to adapt to the changes, to be more innovative in products and services. So, geopolitical pressures, interdependent global economy, global warming, climate change, all these factors have also resulted, and impacted, they have created a kind of force on the organization.

Fashion trends, the next big thing is the change in fashion, changing preferences. People are or the fad is also driving is a kind of force which is driving the business organizations plans. So these factors are leading organizations to adapt to change. In order to maintain their continuity, the organizations are more understanding or they are more sensitive to these forces in the business environment, and they are moving ahead with new plans.

Demographic factors, the generation Y, generation Z, all these are they have a different desire, need, and preference of the products. So, all these demographic forces have also influenced the business environment. And then mandatory factors like legislation, social responsibility, so organizations responsiveness or responsibility towards the planet, so they have to take care, they are more concerned about all these environmental forces.

Process, product, service failures, governance problems, these are some environmental factors which have influenced overall the managerial decision making or the strategy formulation.

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CSR policies and practices- pollution control, product improvement, repair of environment, recycling of waste material, energy saving, these are some policies and practices which have come up as a result of the environmental forces.

To be more responsive to the environmental forces, pollution control measures have been adapted, products have been improved. Say for example, the vehicles, the concept of hybrid car have come into, now the companies are manufacturing hybrid cars which are fuel efficient as well as which are responsive to which at have less carbon emission.

Repair of environment, recycling waste materials, so these are some polices which have been formulated by the organizations to be more responsive or to address to the needs of different stake holders. Energy saving or energy efficiency. Equal opportunities being

given to various stake holders. Minority employment, as we discussed earlier 33 percent reservation or mandatory employment of women in all organizations. So, giving equal opportunity to both genders.

Advancement of minorities, employment of minorities, taking care of the needs of weaker sections, advancement of women, and support of minorities in the businesses, support of disadvantage sections of society, which gives overall these policies of equal employment address to the needs of multiple stake holders. Personal factors – employ health and safety, training, personal counseling, sub contractor code of behavior, providing medical care or insurance to the personnel.

So, the internal stakeholders or people who are working in the organization, their needs need to be taken care of by providing health and safety, by giving them health and safety benefits.

So, every organization takes care of providing medical facilities to the employees, medical benefits, insurance – health insurance to the employees, so that they are more engaged in employment. They are willing to work for the organization; there is a sense of belongingness developed. So, providing the necessary benefits to employs is one of the important policies.

Giving training to the employees, so that it will take care of the career advancement opportunities. Personal counseling, counseling to the employees by the mentors or coaches which will address provide them psychological safety and take care of the professional advancement. Subcontractor code of behavior, providing medical care or insurance, so basically these are personal policies or the strategies which are practices which have been designed by the managers as well as the organization at large.

Community involvement, charitable donations, organization also provides donations, promotes public health initiatives, and the supports education and the art community involvement in projects. Infosys is a global company which takes care of providing large amount of fund to address to the needs of community development. It helps in improvement or providing infrastructure to the government schools in Karnataka.

It helps in developing library resources as well as provides computers to those government schools which were otherwise deprived of such kind of infrastructure.

Ensuring safety in the products, quality of products, sustainability, percentage of materials that can be recycled. So, the products which are released, the products which are meant for consumption need to be safe and they are also of good quality. And which is free from any kind of say the product is fit for use. Suppliers – fair terms of trade, black listing unethical, irresponsible suppliers and sub contractor code.

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TYPES OF BUSINESS ENVIRONMENT

Task or specific environment includes those sectors that have a direct working relationship with the organization. **Example**, customers, competitors, and suppliers.

- ❖ **Customers** are defined as people and organizations who acquire goods or services from the organization.
- ❖ **Example**, patients are the customers of hospitals, students are the customers of schools, and travelers the customers of airlines.
- ❖ **Competitors** are other organizations in the same industry or type of business that provide goods or services to the same set of customers.
- ❖ **Example**, Coca-Cola and Pepsi are competitors in the soft-drink market. Blue Dart and FedEx are competitors in courier industry.

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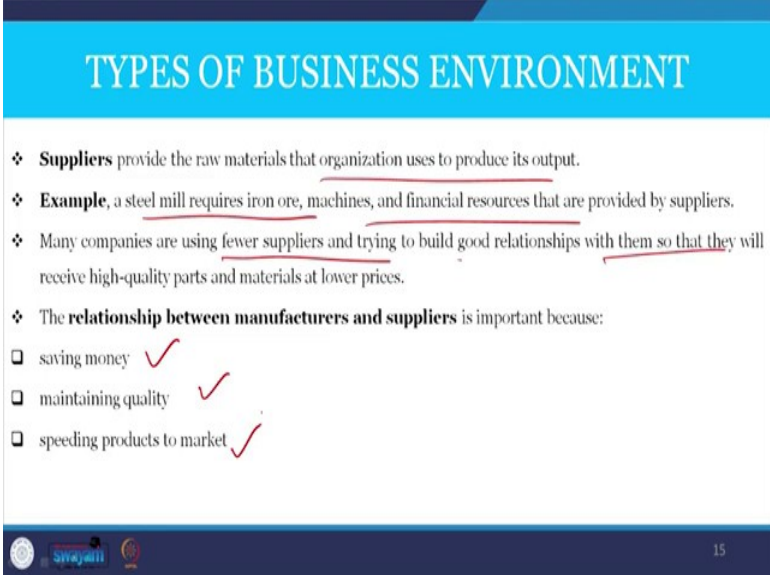
So, the task or specific, now let us discuss about what are the constituents or elements of the specific environment. Specific environment includes those sets of factors that have a direct working relationship with the organization. For example, customers, competitors, and suppliers, they directly influence the business organizations; they are the constituents of the task environment or specific environment.

Customers are people, define as people and organizations who acquire goods or services from the organizations. Patients are the customers of hospitals; students are customers of schools; travelers are the customers of airlines. So, there are different types of customers for different organizations. Competitors are other organizations in the same industry which are operating in the same industry or the type of business that provide goods or services to the same sets of customers.

Competitors are overall, they are other organizations which are operating in the industry or the type of business which have a same sets of customer base, and who offer the similar goods and services to those sets of customers. Coco Cola and Pepsi are

competitors in the soft drink market. Blue Dart and FedEx are examples of competitors in courier industry.

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The slide is titled "TYPES OF BUSINESS ENVIRONMENT" in a blue header. It contains several bullet points with red checkmarks next to them. The first bullet point defines suppliers. The second gives an example of a steel mill. The third discusses the trend of using fewer suppliers. The fourth states the importance of the relationship between manufacturers and suppliers, followed by three sub-points: saving money, maintaining quality, and speeding products to market, each with a red checkmark.

TYPES OF BUSINESS ENVIRONMENT

- ❖ **Suppliers** provide the raw materials that organization uses to produce its output.
- ❖ **Example**, a steel mill requires iron ore, machines, and financial resources that are provided by suppliers.
- ❖ Many companies are using fewer suppliers and trying to build good relationships with them so that they will receive high-quality parts and materials at lower prices.
- ❖ The relationship between manufacturers and suppliers is important because:
 - ☐ saving money ✓
 - ☐ maintaining quality ✓
 - ☐ speeding products to market ✓

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Suppliers, suppliers provide raw materials to the organizations, uses to produce its output. Examples of suppliers, a steel mill requires iron ore, machines, and financial resources that are provided by suppliers.

For hospitals, pharmaceutical companies are suppliers; for a steel industry or say for example steel and aluminum industry are major suppliers for aircraft manufacturing, ship building and so on. So, many competitors are using fewer suppliers, and trying to build good relationship with them, so that they will receive high quality parts and materials at lower prices.

So, the relationship between manufacturers and suppliers is important because to save money, maintaining quality, and spreading products to market. So, a supplier-customer relationship or supplier-organization relationship, or manufacturer-supplier relationship is very important in order to get the right amount of resources, to maintain quality, speeding products to the market, or delivering products at the right time to the market, and to save money unlarge.

So, with this we conclude this lecture. And overall discussion will be wind up by saying that the business environment is important and relevant to identify the business

opportunities. It helps to tap useful resources cope with the changes or adapt to the changes assist in planning.

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IMPORTANCE OF BUSINESS ENVIRONMENT

- Enables to identify business opportunities
- Helps in tapping useful resources
- Coping with changes
- Assistance in planning
- Helps in improving performance
- To adopt flexible style of management
- To facilitate quick decision-making process with changing tastes, preferences of customers.

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Basically business environment assessment is important to assist managers to plan. Help in improving, overall performance of organization. The plans are in response to the plans would address to the needs of each of the stakeholder group. To be more flexible in managing or to develop the plans, adapt flexible style of management, to facilitate quick decision making process with changing test, preferences of customers.

Overall here what we have discussed is assessment of business environment, the specific the task environment, or the specific environment, internal environment and overall general environment is very important as it helps in identifying business opportunities, and to get the right amount of resources or to have quality resources for the organization, and to cope with the changes, adapt and to be more flexible in planning as per the changes in the business environment, and it helps in improving overall performance of organizations.