

Unit 1

Concept of Business Environment

- Business environment is the sum of all external and internal environmental forces that influence the business decisions.
- Internal environment forces remain inside the organization such as owners, board of directors, employees, and organizational culture.
- External environment forces remain outside the organization such as task environment (like-competitors, customers, suppliers, regulators, strategic allies) and general environment (like-political-legal, economic, socio-cultural, and technological-PEST).

Characteristics

1. Complex
2. Dynamic
3. Mutual Relationship

1. Uncertain
2. Far-reaching Impact
3. Multi-faceted
4. Relativity
5. Internal and External Forces

Importance

1. Identification of SWOT
2. Competition
3. Dynamism
4. Growth and development
5. Image building
6. Continuous learning
7. Cope with rapid changes

- **Components of Business Environment**

- 1. Internal Components**

- a. Goals, policies and strategies
- b. Organizational culture(norms, values, belief)
- c. Organizational resources(HR, physical, financial and technology)
- d. Organizational structure(Division of work, authority, coordination, classification of activities)

- 2. External Components**

- a. The task environment: Competitors, suppliers, customers, Regulator, Interest group, Stakeholders
- b. The General Environment: PEST, PESTEL, PESTLEG

Political Environment

- Political Philosophy
- Political system
- Political Institutions
- Legal system
- Court of law
- Law administration

Economic Environment

- Economic system
- Economic policies
- Economic conditions
- Regional economic group

Socio-cultural Environment

- Demography
- Pressure Group
- Reference Group
- Lifestyles
- Social class
- Religions
- Belief/Attitudes
- Languages

Technological Environment

- Level of Technology
- Pace of Technology
- R & D Budget
- Technology Transfer

Environmental Analysis

Internal forces help to assess the likely strength and weakness of organization and external forces help to assess the likely opportunities and threats to the organization

Environmental Analysis is the ongoing process of monitoring environment and determining SWOT to the firm.

Steps involved in Environmental Analysis

- 1. Scanning:** collecting and gathering tiny information of environment, all early signs and signals of environment are detected from scanning.
- 2. Monitoring:** continuous observing and watching environmental changes and its effects in the business

3. **Forecasting:** predicting and developing feasible projections after scanning and monitoring. It assesses what might happen quickly.
4. **Assessing:** identifying and finding effects of environmental changes in business

Methods and Techniques of EA

1. **PESTLEG Analysis:** under this method, following components are analyzed, political, Economic, Socio-cultural, Technological, Legal, Environmental(Physical) and Global components
2. **Scenario Planning:** building pictorial view of possible future of the firm, if the traditional technique is failed in environmental analysis, this method is applied, also called contingency planning. Normally three scenarios are found. Favorable, probable and unfavorable

Activities in Scenario Planning

1. Developing new business worldviews
2. Summarizing future alternatives and future trends
3. To find contradictory situations
4. Helping managers to create their own views
5. Building new set of scenarios

Process of Scenario Planning

1. Examine the possible shifts
2. Identify uncertainties
3. Make believable assumptions
4. Analyze industrial situations
5. Determine the sources of competitive advantages
6. Predict competitor's behavior
7. Select the scenario and use in strategy formulation

Environmental Analysis and Strategic Management

- An ongoing process of monitoring the environment is Environmental Analysis.
- Strategic Management is a set of managerial decisions and actions that determine the long run performance of an organization. It includes strategic planning, strategic implementation, strategic control and feedback.

3. Porter's five forces model

- a. Threats of new entrants:** economies of scales, capital requirements, product differentiation, access to distribution channels, switching cost, government policy, cost disadvantages
- b. Threats of substitutes:** different forms of substitutions, product for product substitution, substitution of needs, generic substitution

Factors that determines the threats of substitution are relative price-performance, switching cost and buyers propensity to substitute

- c. **Bargaining power of buyers:** large buyers, large numbers of suppliers, lack of product differentiation, high material cost, low switching cost, price sensitive customers, backward integration
- d. **Bargaining power of suppliers:** large and monopoly suppliers, few substitutes, powerful brand, fragmented buyers, forward integration
- e. **Competitive rivalry:** large numbers of competitors, balance among the competitors, high exit barriers, lack of product differentiation, capacity utilization, low market growth, global customers.

Techniques of Environmental Scanning

1. Executive opinion method: a panel of executive of firm
2. Expert opinion method: outsiders expert and specialist

3. Delphi method: extension form of expert method, interaction among expert, summarize all responses
4. Extrapolating method: past information is used, time series, trend analysis, regression analysis etc.
5. Historical Analogy: parallel and historical events of an organization is analyzed
6. Intuitive Reasoning: rational and unbiased intuition is used in environmental scanning
7. Scenario Building: build pictures of possible future in order with logical cause
8. Cross-impact matrix: combined effects and integration of various factors to scan environment.

The System and its Environment

