



# External Environments of Firm

# Introduction

- The business environment of the firm consists of **all the external influences** that impact its decisions and its performance.



- **Corporate strategy** is concerned with deciding which **industries the firm** should be **engaged** and how it should **allocate its resources** among them.



- **Business strategy** is concerned with establishing **competitive advantage**.

# Environment

- Understanding of the competitive environment is a critical ingredient of a successful strategy.
- Business strategy is essentially a quest for profit.
- The primary task is to identify the sources of profit in the external environment.
- All those factors or forces, residing besides the business and affecting its functions or various decisions of the business.

## Definition

- Keith Davis : Environment of the business means the aggregate of all conditions, events and influences that surround and affect it.
- Arthur M. Weimer : Business environment encompasses the climate or set of conditions, economic, social, political or institutional in which business operations are conducted.”

# FEATURES

- Environment is dynamic in nature.
- It has direct and indirect impact.
- It has two types of factors (internal & external).
- It is not separable from business.

# Cont.

- Impact on business decisions.
- It regulates the scope of business.
- It is multi dimensional.

The prerequisite for effective environmental analysis is to distinguish the vital from the merely important.

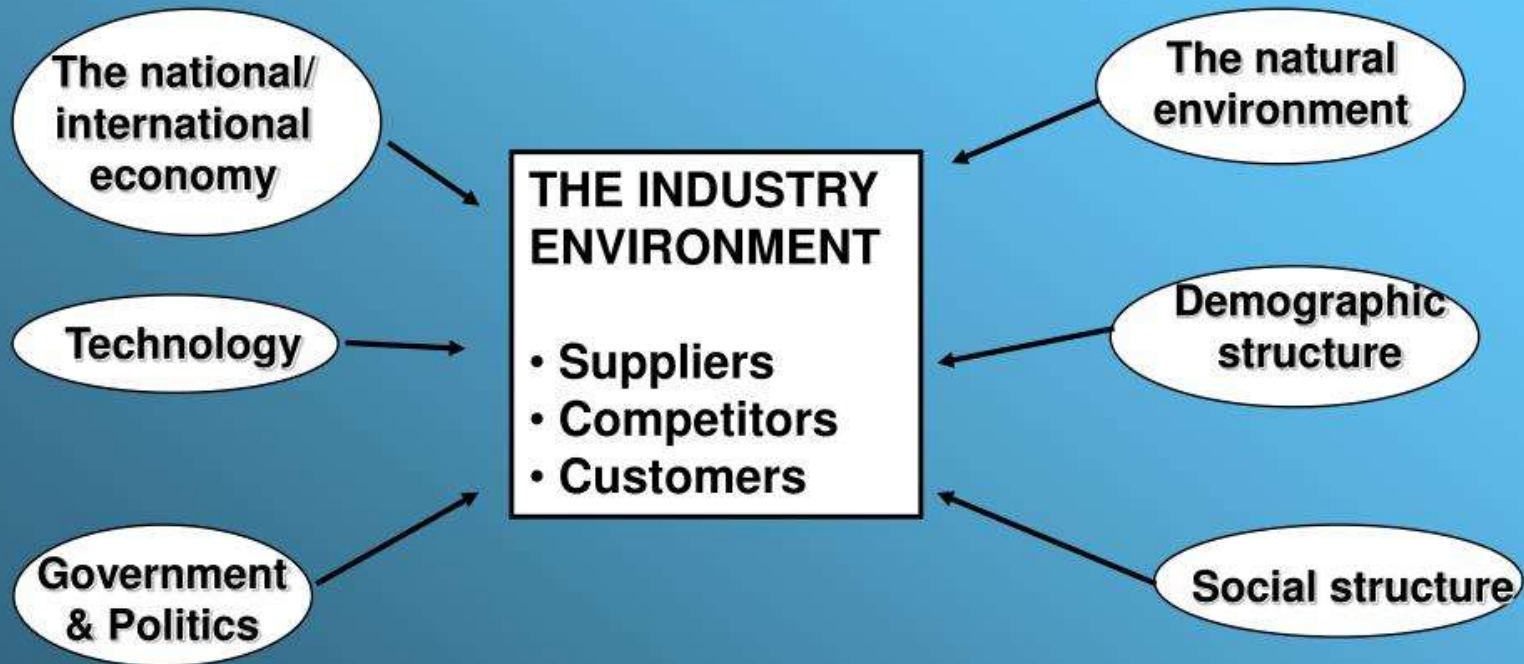
# Principles *Indu. Eng*

- First, for the firm to make a profit it must create value for customer.
- Second, in creating value, the firm acquires goods and services from suppliers. Hence, it must understand its suppliers and manage relationships with them.
- Third, the ability to generate profitability depends on the intensity of competition among firms that vie for the same value-creating opportunities. Hence, the firm must understand competition.

- Thus, the core of the firm's business environment is formed by its relationships with three sets of players: customers, suppliers and competitors. This is its industry environment.



# From Environmental Analysis to Industry Analysis

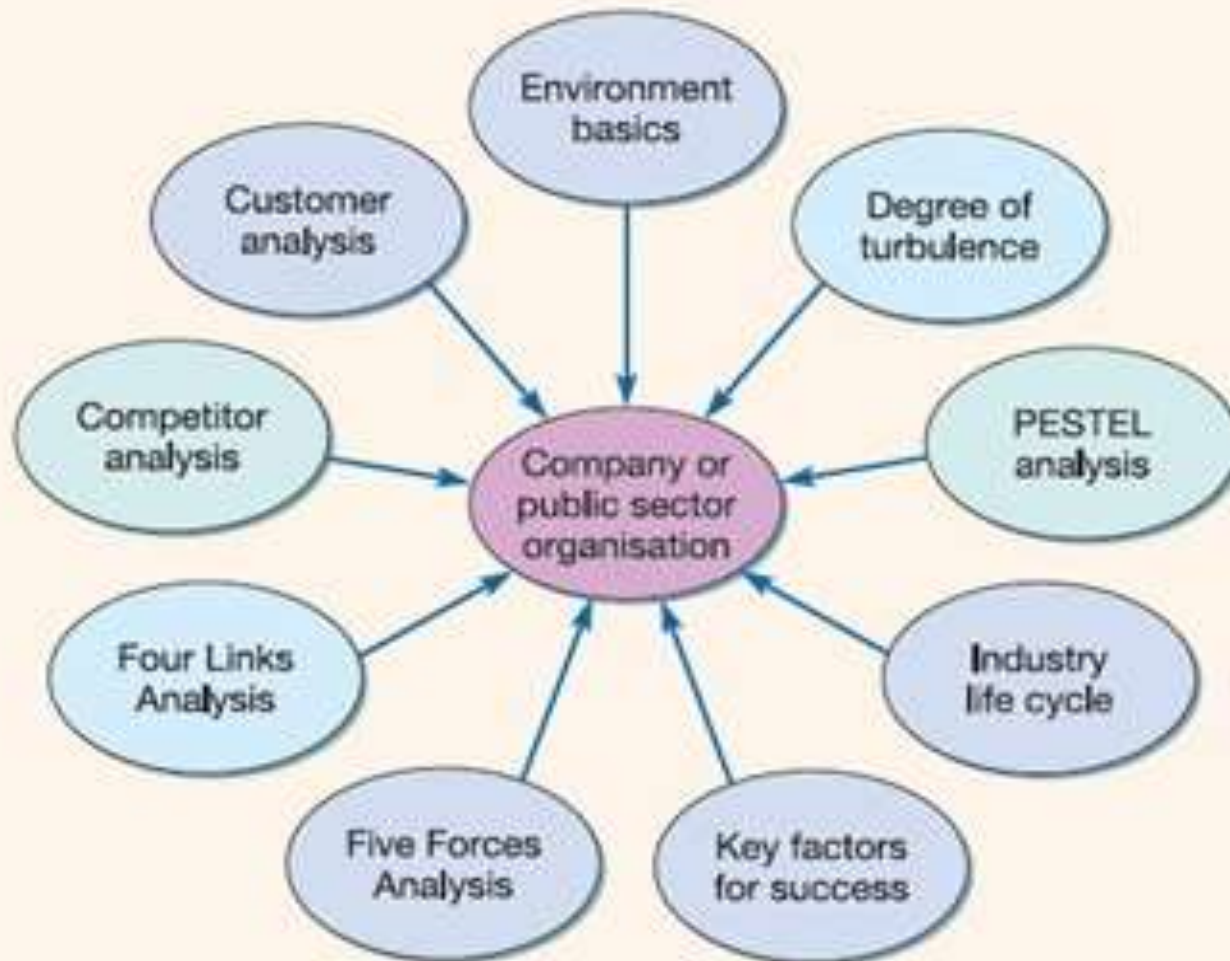


- *The Industry Environment lies at the core of the Macro Environment.*
- *The Macro Environment impacts the firm through its effect on the Industry Environment.*

# Layers in business environment

- The Macro Environment
- Industrial Environment(or sector)
- Competitive Environment  
(Competition/Markets)
- The firm

# Analysing the strategic environment – the nine basic analytical tools



# The Macro Environment

- Macro environment is not that much immediate environment of a company. This macro environment factors are far away from the company but it gives indirect effects on companies functioning.
- It includes demographic, economic, natural, social and technological environmental forces or factors.
- PEST(EL)

# Political environment

- National, state, local, and foreign governments are major regulators, deregulators, subsidizers, employers, and customers of organizations. Political, governmental, and legal factors, therefore, can represent key opportunities or threats for both small and large organizations.

# Cont.

- So whenever govt. through its policy brightness the prospects of some enterprises may pose a threat to some others.
- For example liberalization has opened up some opportunities to some business at the same time it has give set back to some business.

- For industries and firms that depend heavily on government contracts or subsidies, political forecasts can be the most important part of an external audit.
- Changes in patent laws, antitrust legislation, tax rates, and lobbying activities can affect firms significantly.

# Cont.

- The increasing global interdependence among economies, markets, governments, and organizations makes it imperative that firms consider the possible impact of political variables on the formulation and implementation of competitive strategies.



# Political, Governmental, and Legal Variables

- Government regulations or deregulations
- Changes in tax laws
- Special tariffs
- Political action committees
- Voter participation rates
- Number, severity, and location of government protests
- Number of patents
- Changes in patent laws
- Environmental protection laws
- Level of defense expenditures
- Legislation on equal employment
- Level of government subsidies
- Antitrust legislation

# Political, Governmental, and Legal Variables

- Import–export regulations
- Government fiscal and monetary policy changes
- Political conditions in foreign countries
- Special local, state, and federal laws
- Lobbying activities
- Size of government budgets
- World oil, currency, and labor markets
- Location and severity of terrorist activities
- Local, state, and national elections

# Economic factors

- The economic conditions of a country means the nature of the economy, the level (slope) of development of economy, economic conditions, the level of income of the people, or distribution of income and assets etc.
- These factors are important while determining the business strategies, for example in a developing country the low income may be the cause for very low demand for a product, here business can't increase the purchasing power of the people to generate higher demand for its product.
- So here the company should emphasis an reduction of prices for higher sale.

- The economic policy of the govt.
- The economic system refers to the kind of economy; the country has i.e. free market economy, capitals or socialist economy.
- Improved customer service, immediate availability, trouble-free operation of products, and dependable maintenance and repair services are becoming more important.
- People today are more willing than ever to pay for good service if it limits inconvenience.

## Economic variables

- Availability of credit
- Level of disposable income
- Propensity of people to spend
- Interest rates
- Inflation rates
- Money market rates
- Federal government budget deficits

# Cont.

- Gross domestic product trend
- Consumption patterns
- Unemployment trends
- Worker productivity levels
- Value of the dollar in world markets
- Stock market trends
- Foreign countries' economic conditions

# Economic variables

- Import/export factors
- Demand shifts for different categories of goods and services
- Income differences by region and consumer groups
- Price fluctuations

# Cont.

- Export of labour and capital
- Monetary policies
- Fiscal policies
- Tax rates



# Advantages of a Weak Rupee for Domestic Firms

- More export
- Lower import
- Goods cheaper to foreign consumers
- Combats deflation by pushing up prices of imports
- Reduces trade deficit
- Encourages firms to globalize

# Disadvantages of a Weak Rupee for Domestic Firms

- Can lead to inflation
- Can cause rise in oil prices
- Can weaken government
- Makes it unattractive for Indian to travel globally