4

ENVIRONMENTAL CONTEXT OF MANAGEMENT

CONCEPT OF BUSINESS ENVIRONMENT

Literal meaning of environment is the surrounding composed with a set of external elements or circumstances under which someone or something exists. In this ground, business environment is a set of all forces surrounding the business which influence the existence and development of business activities of any organization. As you know, every organization has to operate its activities within the scope of external as well as internal factors. Environment plays a significant role in the functioning of any organization. It determines the effectiveness of organization and compels to adjust everything with environmental forces. Thus, Business environment is the overall business climate created by the composition of internal and external forces within which an enterprise operates its economic activities.

> **Robbins and Coutler:** "Environment refers to institutions or forces that affect the organizations' performances."
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> **Keith Davis:** "Business environment is the aggregate of all conditions, events and influences that surround and effect a business."
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> **Arthur M. Weimer:** "Business environment encompasses the climate or set of conditions; economics, social, political or institutional in which business operations are conducted."

A business environment, thus can be defined as the composite set of internal and external forces which affects to the whole business cycle directly or indirectly towards the dynamic situations. Generally organizations are influenced by two sets of environmental factors. The environment that affects directly to the business organization are internal factor. Such factors can be controlled by the management through its functions, planning and policies, organization structure, organization culture, etc. The environment which affects the organization indirectly is called external environment. It is composed of political-legal, economic, socio-cultural, technological, etc. factors. External factors are beyond the control of an organization. Factors of external environment are uncertain and complex to estimate and predict their effects.

ORGANIZATION-ENVIRONMENT RELATIONSHIP

There is close relationship between organization and environment. This relationship involves the inter-relationship and interaction between the functions of an organization with the external and internal environment. Every activities of organization are related with such events. A business system consists of input-process-output system which can be expressed in the following figure:
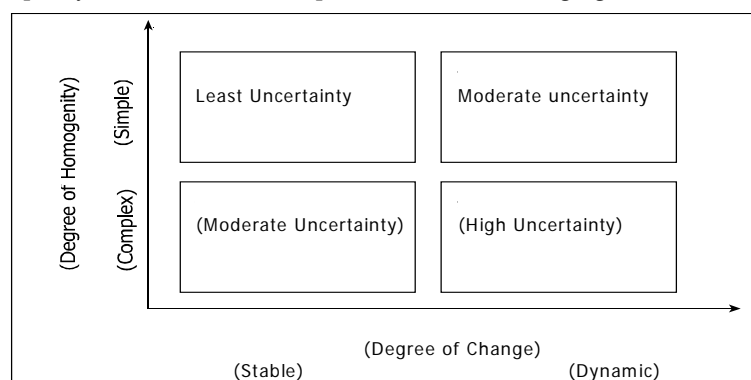
Organization has exchange relationship of input and output with environment. Business organization receives the inputs from external environment and transformed into output through the managerial process. Outputs are also served into environment. Feedback is also another important component which establishes the effective relationship between the environment and organization. Therefore organizations must respond to the environment. Without managing and forecasting the environment situations effetely, organizational goals cannot be achieved easily. All the managers should understand the relationship

between organization and environment. It is the very important to organization due to the following reasons:

1. It should maintain the dynamism through continuous adaptation to environmental changes.
2. The analysis of environmental relationship helps to foster strategic thinking in the organization. Opportunities and threats to the organization can be identified.
3. The analysis of organization-environment relationships helps to understand and form pressure groups which can be used for making lobby on behalf of business organization to influence laws and government policies.
4. It helps an organization to learn what competitive organizations are doing on business. Strategic plans can be formed effectively.
5. It enables the organization to foresee the impact of environmental change and its stability.

TYPES OF BUSINESS ENVIRONMENT

Different forces influence business organizations directly or indirectly. Such forces are divided into two types : internal environment and external environment.
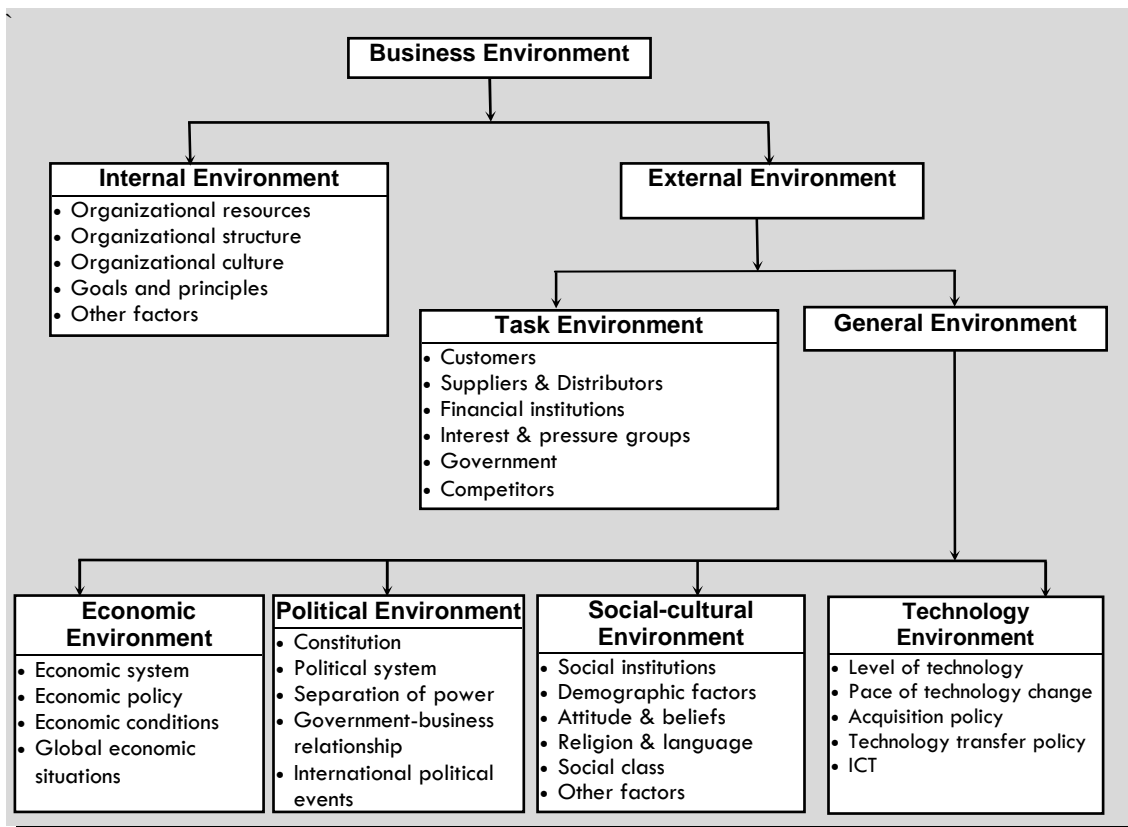
a. **Internal Environment**

Organizations have their own environment consisting of many forces situated within organization which is known as internal environment. Factors of internal environment are controllable. Internal environment of the business provides strength and weakness to it. The internal environment of the organization consists of following factors:

i. **Organizational resources:** Employees are the most important part of organizations. Employees are directly involved in planning policies and implementing such policies. They have vital role to coordinate the other resources effectively. Management can develop

human resources by providing trainings and planning the utilization and maintenance policies. Beside human resources technology, capital, raw materials etc. are other important resources influencing organizational effectiveness and productivity. Availability of such resources provides the strength where the shortage of the resources provides weakness.

ii. **Organization structure:** The overall framework of organization's roles, rules, and hierarchy and authority-responsibility system affects the organization objectives. It also includes the departmentation process, interrelation of different units, groups and individuals to each other. Formal and informal organization structure affects the role and authority of an organization. Organizational structure is the key factor for employee motivation and hence organizational success.

iii. **Organization culture:** Culture includes the shared norms beliefs and values that guide the employee's behavior in organization. It helps new members to understand about the goals, objectives, functions, operating system of the organization. Culture provides the shape for the overall effectiveness of the organization. Organizational cultural has a powerful influence on the process of organizational change and decision making.

iv. **Organization goals and principles:** Every organization has specific goals which are desired outcomes of that organization. Each activity of organizations is conducted within the framework of goals. Policies are general guidelines for managerial decision making. These policies are developed by top management of organizations. Organizational goals, objectives, policies, are also an important factor of business environment.

v. **Other factors:** Trade union and its activities affect the organizational activities. They want to reduce the working hours and to increase the financial as well as non-financial facilities to employees. Share holders also influence the business environment as they demand more dividends as quickly as possible. Likewise, communication systems, natural of products, size of organization, leadership style, control system, etc. are also the internal factors of business environment.

b. **External Environment**

External environment is composed of the factors consisting beyond the organizational scope. They cannot be controlled by organizational management. External environment provides opportunities and threats. External environment further can be classified into two parts i.e. task and general environment described as below:

a. **Task environment:** An organization is formed with many stakeholders like customers, suppliers, competitors, financial institution, distributors and other interested groups. Such factors can affect the organizational activities positively as well as negatively. These factors of the organization which lie just beyond the organization form task environment. They are called factors of task environment as they affect to the task or activities of the organization. The task environment can be controlled to some extent by an organization. The main components of task environment are as follows:

i. **Customers:** The main focus of an organization, the customers, purchase the products of that organization. Organization should understand the customers' wants and needs to satisfy them. As their interest, desire and wants are changing according to the changes in fashion, organization should develop suitable products to satisfy them. Satisfied customers are the property of an organization. They can be used as effective source of information required to innovate new products.

ii. **Suppliers and Distributors:** suppliers are related stakeholders of an organization who supply the required raw materials, semi-finished goods, human resources, technology, office supplies and other necessary resources. Distributors are also one of the important parts of organization who serve the organization by distributing the products of organization to the customers. Organization should maintain healthy and long lasting relationship to the suppliers and distributors.

iii. **Financial institutions:** Business organizations frequently require capital for business extension. Organizations receive short-term and long- term fund to meet their financial needs. The terms and conditions of loan agreements, interest rate, other charges etc. are influenced by availability of financial institutions and their regulation.

iv. **Interest and Pressure groups:** There are several interest group and pressure group around the business organizations. They advocate in favor of society and customer welfare in relation to quality, price, service, environmental protections, human rights and wastage management. Such groups create pressure to the organization in order to make decision in favor of them and their issues.

v. **Government:** Government can make changes in rules, regulations and act to establish the effective systems. Government policies like liberalization, privatization, centralization, taxation, fiscal etc. directly affect to the business environment. Its regulation to the business is also one of the important facets in business environment.

vi. **Competitors:** Business organization must face the competitions which is an inevitable part of task environment in the present age of globalization. Intense competition decreases the market proportion while it gives pressure for improving quality and reducing price. Whereas low level of competition creates more congenial situation to the business. Therefore, managers should understand the level of competition, potentiality of increasing competition and make the business policies.

b. **General Environment:** The general environment is the main part of external environment. It is the set of broader forces in organization surroundings. These factors are located outside the organization and cannot be controlled by the organization. They influence continuously to the organizational activities and provide similar effects to all business organizations. The major external environmental factors are explained below:

i. **Economic environment:** The economic environment of business is largely determined by economic system of the country. The major factors of economic environment are economic dimensions of country, monetary, fiscal and economic policies, role of private sector, business cycle, condition of capital market and effects of globalization, etc.

- **Economic system:** There can be three modes of economy in world capitalistic, socialistic and mixed economy. Capitalistic is free and open a market economy in which the role of private sector remains major. There may be fewer barriers for opening and closing the firms. Every one works for profit and they can hold unlimited property. But socialist is closed market economy in which government enterprises play an important role. In closed economy, private sector cannot operate their business competitively. In mixed managed market economy, there is proper combination of private and public sector. All these forms of economy have positive and negative impacts to the business entities separately.

- **Economic policy:** A country may have many policies which are directly or indirectly related to the business organizations. Fiscal policy, monetary policy, commercial policy, industrial policy, trade and transit policy, privatization policy, employment policy, etc. are important policies for the business organizations. Fiscal policy determines tax policy and public expenditure towards other area of economy. This policy is important for of tax limit and employment creation which directly affects to the business. Monetary policy determines and manages the money supply, inflation rate, interest rate controlling measures of banks and financial institutions etc.

- **Economic condition:** Business organizations economic environment is affected by the economic conditions of that country. Economic growth rate, purchasing power of people, per capita income, size and nature of economy, business cycles,

availability and development of capital, developing stage of national economy, etc. are the important factors which affect business activities of an organization.

- **Globalization economic situation:** An organization's economic environment is affected by the globalization and international economic scenario as well. Economic environment is affected by the internal growth rates and inflation rates activities of regional and international economic associations, and other international incidents. World Trade Organization (WTO), South Asian Free Trade Area (SAFTA), European Union (EU), International Monetary Fund (IMF), World Bank (WB), etc. can play effective role in economy and hence in the organizational activities.

ii. **Political environment:** Political system of country, role of political parties, constitution, bureaucratic structure, foreign affairs policy, ideology of the ruling government, political stability, condition of human rights and political rights, government-business relationship, etc. can play a significant role to the business activities as the factors of political environment. It is an important external force which affects the organizational activities in many ways. The political- legal dimension of the general environment refers to the relationship between the government and business. It is important because political and legal systems partially define what an organization can do and cannot do and affects to business organization should undertake political risk analysis price to investing starting a new project or expansion of existing business. The major component of political- legal environment are explain below:

- **Constitution of country:** It is the most important legal document of the state which determines the fundamental rights of people. It sets the power limit of different right to the citizens. Every business organization must consider these rights and constitutional provisions while making the organization strategies.

- **Political system:** Political system of country affects to the general activities of the organization. It consists of ideological forces, political parties and their role, election system, role of political institutions. These factors can play a significant role for making and changing the laws, rules and regulations. There can be autocratic or democratic political system in country but latter is favorable for the organizational development. A stable and efficient political system can influence the growth of the organization.

- **Separation of power:** Generally every political system comprises three major branches : legislature, executive and judiciary. These three branches are interrelated and interdependent. Legislature makes laws, approves the budgets, indirectly controls the government and amends the constitutions if required. The executive body is government that is formed through the legislature. It governs and handles day to day activities of country. Judiciary system of country ensures the implementation of laws and rules determined by legislature. The relationship and power provided to these bodies affects the activities of organization.

- **Government-business relationship:** Government and business organizations are interrelated and they should have better relationship. Business organization can help the government by supporting their programmes. Government can manage the basic needs of business like infrastructure development and other facilities. Government plays vital role in promoting or discouraging any specific business in the country.

- **International political events:** The general environment of business organizations can also be affected by the international political activities and events. Political system of the neighboring countries, international political incidents, etc. indirectly affects the organizational environment.

- **Other factors:** Judicatory system of country, role of political parties, political stability, condition of political and human rights, etc. also influence the organizational activities.

iii. **Social-cultural environment:** Organizations are established in the societies. They use the social resources and conduct activities in society. Nowadays the growing concern of social responsibility has increased the additional pressure to the business. As other factors, social factors also provide positive and negative influence to the business. Social environment is constituted of social institutions, attitudes and beliefs, religion, language, culture, education level, class system, desire expectations of people in a given society, values, norms and culture of people, etc. Socio-cultural environment of the society is composed of people and their culture. Socio-cultural factors influence the policies, priorities and activities of organization. A business organization cannot operate its business against the socio-cultural realities. The activities of business organization are affected by problems of poverty and illiteracy; family system, culture, religion, traditions, life styles, etc. So, organization should manage their overall activities considering these forces of socio-cultural environment. The major components of socio-cultural environment are as follows:

- **Social institutions:** Structure and process of social organization can affect the organizational activities. Family is one form of social institution based on kinship. Sport clubs, musical groups, etc. are organizations based on the free association of individuals. Structure of such organizations has been changing with the changes of social and economic factors. So, organization should adjust their environment with the change of social institutions.

- **Demographic factors:** Business organizations are affected by the demographic forces of society. Size and distribution of population, age mix, migration rate, urbanization rate, population growth rate, etc. also are important components of business organizations.

- **Attitudes and Beliefs:** Attitudes mean a way of thinking or behaving toward a person, object, idea or activity. Beliefs are descriptive thoughts about something based on knowledge, opinion or faith. Organization is strongly influenced by the attitudes and beliefs of targeted people i.e. customer.

- **Religion and Language:** Religion is a major influencing force for shaping the attitudes, beliefs, motivations and values of culture. Culture and festival are also related to the religion. Language is a prominent part of culture.

- **Social class :** It is the rank within a society determined by its own members. Society can be classified into three classes: upper class, middle class and lower class. Members of same class people may have same values, interest, behavior and purchasing power. The need of various social classes differs because of economic strengths. So, business organization should produce goods and services to meet the requirements of specific social class.

- **Other factors:** The general business environment is affected by many other social-cultural factors like life style of society, literacy rate, superstations, cast systems, etc.

iv. **Technological environment :** Every organization must use certain technology to convert input into outputs. Technological environment includes the innovation capacity of organization, tools and techniques, technology transfer policy, availability of ICT, Research and Development activities etc. Technology consists of skills, methods, system, techniques and equipments involved in production, promotion and distribution process. Organization having new technology can produce cheaper and quality products than the old technology. The major components of technological environment of a business organization are explained as follows:

- **Level of technology:** Every organization cannot use same level of modern technology. It differs from organization to organization depending upon the size, nature and economic conditions of organization. They can choose either labor–based or machine- based technology or the proper mix of both though there are computerized and robotic technologies as well. To use the appropriate level of technology, organization needs not only skilled HR to operate it but also the sufficient capital to own it. Advanced technology like computerized and robotics influence the organizational activities as they produce better products at minimum cost of production.

- **Pace of technological change:** Technology once adopted cannot be changed quickly as it requires high capital and trained human resources. But if the technology is changing fast, the adopted technology may be outdated. Then the organizations feel pressure whether new technology should be adopted or continue the using one.

- **Acquisition or making policy:** Organization can make new technology or buy it from market. If they have policy to develop new product themselves, they need to enhance R/D capacity. Management should make strategic decisions considering the cost, productivity, quality, social effect and flexibility while acquiring the new technology.

- **Technology transfer policy:** Technology can be transferred from one country to another country but technology transfer policy can strongly affect on it. There may be a number of regulations and limitation to transfer the technology. Method of transferring technology are FDI, globalization, strategic alliance, technical assistance, etc. Countries specify specific methods of technology transfer which strongly affect the goal activities of organization.

- **ICT :** The most important and recently developed technology is ICT, which can impact business activities significantly. Use of computer and new communication technology makes easier for processing and transmitting the data. It also affects the organizations general environment strongly.

ENVIRONMENTAL SCANNING

Environmental scanning is the process of collecting business related information in the organization. It is, thus an act of accumulating organizational internal and external environmental factors, which may have direct or indirect, immediate or long term, operational or strategic issues. Environmental scanning facilitates managers to identify current situations, forecasting the future, and determining future direction of the organization. In many organizations, a committee i.e. The Environmental Scanning Committee is provisioned nowadays which gathers valuable informations through continuous monitoring the environment to facilitate management to make the best decisions fit for even changing business environment.

Environmental scanning is a process in which an organization monitors its internal and external environment as a means of formulating or altering a strategic plan. It involves the ongoing tracking of trends, occurrences, patterns and relationships within its different environments and detecting early indications of opportunities or threats to the current and future plans of the organization. Managers need to move out from their organization, into and beyond their industry to global trends to make the business global. For this, managers need to follow a system perspective. For entire scanning, managers should integrate following vital information:

- Entire industry and its operating environment (Here industry is for collection of similar business firms doing similar business, for instance banking industry, tourism industry, cement industry, telecommunication industry, etc.)

- Current level of services, and how they might evolve,
- Current consumers, and how their expectations might change,
- Visible and invisible issues that are likely to affect workforce and staff,
- Emerging and converging technologies, and
- Emerging shifts in what we think is 'business as usual'.

Steep Factor Examples of Areas for Scanning	
Social	Demographics, population shifts, migration, generations
	Standards of living
	Value systems
	Socio-economic conditions
	Education (although you might want to make this a separate classification)
	Ethnic/religious factors
	Crime, safety and security
	Family
	Health
	Attitudes to work and employment
	Leisure
	Lifestyle changes
	Consumer attitudes and opinions
	Fads and Fashions
Technology	Technology for service delivery
	Technological developments including emerging technologies
	Convergence, competition and dependencies
	Nanotechnology
	Information and communications
	Technology legislation
Economy	All aspects of economic activity, global, national organizations.
	Work and employment, occupations
	Consumer behavior
	Globalization
Environmental	All natural factors
	Physical and geographical conditions
	Ecosystems
	Resources
	Sustainability
Politics	Often includes legal issues
	Global connections
	National factors

Source: Global Business Network, Zpunkt Trend database, www.z-punkt.de and Pitney Bowes, Environmental Scanning Eyechart.

IMPORTANCE OF ENVIRONMENTAL SCANNING

Environmental scanning is most essential for environmental adaptation to achieve organizational goals. Following points justify the importance of environmental scanning.

a. **SWOT Analysis:** Environmental scanning helps analyze the strengths, weaknesses, opportunities and threats for the organization. SWOT stands for Strengths, Weaknesses, Opportunities and Threats. It provides an analysis of internal and external environmental factors closely so that organization reveals valuable information for supporting and obstructing the growth of organization.

- **Strengths:** Strengths are the organizational factors enable the organization for competitiveness. Sufficient organizational resources like material, machinery, capital, human resources, information excess, marketing network, organizational goodwill, etc. provide the organizational strength. Organization uses such strengths to grab the market opportunities. From scanning of internal environment, organization estimate its strengths. Level of strength helps estimate the productivity, efficiency, effectiveness and growth of the organization.

- **Weaknesses:** Weaknesses is the situation of organization in which important factors of production, distribution and overall management to operate the business becomes insufficient. Lack of strength is a situation of weakness. It is also estimated by the analysis of internal environment of the organization. Weaknesses hinder the growth of organization because of failure of the organization to grab the market opportunities. Organization must correct the weaknesses for growth and stability.
- **Opportunities:** Opportunity is the situation for chance of organizational benefit, growth and stability. It is provided by external environment. All the favorable situations for organizational processes, and business activities are considered as the opportunities. Market growth, changing political, economic, socio-cultural factors, government policies in favor of organization, etc. create the opportunities to business organizations. Through scanning of external environment, organization identifies possible opportunities. By optimal use of organizational strengths, organizations grab the organizational opportunities.
- **Threats:** Threat is the situation of hazard or risk to the organization. Threat is one or aggregate of unfavorable situations for business of the organization. It is also the consequence of changes in external environment. By conducting environmental scanning, organizations identify threats to them. Threats in soft level hinder the organizational growth and at the intense level, they create situation of organizational closure too. Organization needs to formulate the strategies to scan and diffuse such threats or minimize its impact.

b. **Optimal use of resources:** Environmental scanning provides valuable information to the organization which helps to conduct a thorough analysis of opportunities and threats. Based on the report of environmental analysis, organization formulates strategies and action plans for optimum utilization of resources. In simple words, organization can have optimal i.e. effective and economic uses of its resources based on the information received from environmental scanning. Environmental scanning helps organization for growth and stability through optimal use of resources.

c. **Helps in decision making:** As we know, decision making is management act for choice of the best alternative. For effective managerial decision, decision makers need to have adequate, updated and correct information. Environmental scanning provides such information to the decision makers. Decision makers can locate and estimate the threats and opportunities for the organization. They also get the accurate information of organizational strengths and weaknesses. Based on such information, they can make best decision facilitating organizational growth and prosperity.

d. **Growth and stability of business:** Organization employs environmental scanning techniques for collecting all the changes in business environment. Such informations provide valuable insights what changes, when and at what intensity are going to happen. Based on such information, organization formulates strategies for improving competitive strengths. Based on the facts from environmental analysis, organization can manage its resources for reducing obstruction and increasing gain which enable the organization for growth and stability.

e. **Business strategy formulation:** Based on opportunities, threats, strengths and weaknesses of the organization, it is essential to formulate most effective strategy for the future. Organization needs to formulate expansion as well as diversity decisions for organizational stability and growth. Sometimes, for organizational existence as well, organization needs to take bold decisions. For such decision, which may sometimes challenge the organizational existence, must be based on accurate information. Environmental scanning provides such information so that organization can formulate necessary business strategy.

METHODS OF ENVIRONMENTAL SCANNING

As discussed earlier, environmental scanning has various advantages for organization. As the business environment is complex and frequently changing, environmental scanning should be cautiously dealt. Decision makers should adapt appropriate method for environmental scanning. For scanning process, organization can adapt different methods as described below.

a. **Extrapolation method:** Extrapolation is the method in which past information is recorded and analyzed to explore the future. Basic logic of this method is that the future is assumed to be consequence i.e. function of the past. For extrapolation different methods like trend analysis, forecasting and regression analysis can be used. Basic assumption of this method is that the environmental situations remain as previous.

b. **Historical analogy:** Historical analogy is the method in which some historical parallels i.e. similar situations are prepared in order to estimate the future. This method is used if the past data cannot be effectively used to analyze an environmental trend. For instant, if economic condition of Nepal is to assess, we can compare the history of similar country at the past and how it tackled with situation. Similar situation can be traced for us. More appropriate example could be the historical analogy of tourism industry in Nepal. We can estimate the progress of tourism industry with parallel of the progress situation of Malaysia or Thailand. This method assumes that sufficient information is available from the other trend.

c. **Intuitive reasoning:** Intuition is the ability of a person to estimate or understand environmental factors without any direct evidence or without reasoning. Thus, under this method of environmental scanning, scanner makes environmental analysis based on their own intuition i.e. personal thinking and justification. For intuitive reasoning, person should have free thinking unconstrained by past experience and personal biases.

d. **Scenario building:** Under this method, events have a logical cause-and-effect relationship to one another. Based on this cause-and-effect relationship of the events, future is forecasted. In more certain environment, this method helps a lot but in more flexible environment, it may not provide more reliable forecasting. We develop scenario in various instances for example, businessmen maintain good inventory for festival seasons as many people spend more in purchasing goods during these seasons. Farmers use scenarios to predict whether their production will be high or not depending upon the weather and forecast their sales. Government uses scenario planning in their operations to cope with any unlikely situations, anticipating the consequences of every event.

e. **Cross-impact matrix:** Cross-impact matrix can be used to scan the environment if two different trends in the environment point and the future trends need to forecast. Under this method, potential impact of these two trends or situations are estimated. In the following table, different estimations of operations are made under two different possible situations.

A cross impact of forces shaping the future consumer marketplace					
	Force 1: Growing urban populations	Force 2: Growing on-demand economy	Force 3 : Growing drone use	Force 4 : Focus on niche, independent procedures	Force 5: Pressure for alternative energy sources
Force 1 Growing urban populations					
Force 2 Growing on-demand economy	More goods warehouses, delivery in cities				
Force 3 Growing drone use	Air traffic issues in cities, congestion, safety, and parking issues	Communities could experience the 24/7 distribution of goods			
Force 4 Focus on niche, independent procedures	More craft start-ups in cities	Growth of direct to customer services	Pressure to expand capacity for urban drone deliveries		
Force 5 Pressure for alternative energy sources	More rooftop solar, wind energy production	Demand for greener practices in goods production, delivery	Conflicts over rooftop uses between energy production and drone operation	Green niche brands expand, make sustainable practices a selling point	
				Source : Foresightculture.com	

In the above matrix, for example, if the urban population increases and the drone use increases, probable situation could be air traffic issues in cities, congestion, safety and parking issues could increase. Similarly, for the forces as pressure for alternative energy sources with growing on-demand economy; action could be demand for greener practices in goods production and delivery.

f. **Morphological analysis:** Dictionary meaning of morphology is the study of structure and form of animal and plants. It also meant the system of word-forming elements and processes in a language. Based on this meaning, we can understand the morphological analysis as the study of any linguistic i.e. non-quantitative structure of factors and forces affecting the business decision making. Fritz Zwicky developed a problem solving technique with non-quantified, and multi-dimensional problems called morphological analysis. This method includes all possible ways to achieve organizational objectives. It can be used to anticipate and to develop ideal patterns for achieving desired objectives.

Morphological analysis is a method for identifying, structuring and investigating the total set of possible relationships contained in a given multidimensional problem complex. Morphological analysis creates solution models and flexible inferences with defining, linking, and evaluating internally the parameters of complex problem.

g. **Network methods:** Network method of scanning is a procedure for identifying active factors on a network by employing a feature or features in the network. Two types of network methods are popular: Contingency Trees and Relevance Trees.

- **Contingency tree:** A contingency tree is a graphic display of logical relationships among environmental trends that focuses on branch points, at which several alternate outcomes are possible.

- **Relevance tree:** A relevance tree is a logical network similar to a contingency tree, but assigning degrees of importance to various environmental trends with reference an outcome.

h. **Model building:** This method is similar to network methods but relies more on developing mathematical representations of the environmental phenomena in question. Simulations are good examples of model building techniques. Under model building, a large number of scenarios and outcome are developed based on computer simulation model. Simulation typically uses statistical and computer modelling to investigate the performance of a business process either for a new situation or to improve an existing set of processes. By modelling different process scenarios and outcomes, companies can minimize the traditional risks associated with change management initiatives. Here is one example of model building by simulation.
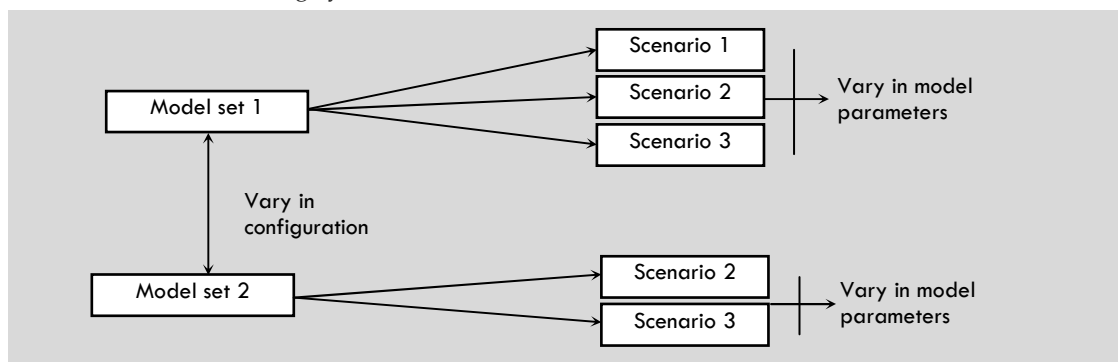
i. **Executive opinion method:** Executives are the persons holding top positions like CEO, MD, Managers, etc. with specific experience and authority. Under this method, such executives are allowed to scan the environment based on their experience. They put their views and opinions based on their judgment. To balance the views and opinions of different executives, mostly, a panel of these executives is formed.

j. **Expert opinion method:** Experts are them who have specialist experience and knowledge on particular issues. Thus, under this method of environmental scanning, experts from outside the organization are asked to estimate changing forces in the environment and forecast the future. Experts have expertise views on issues as for example, the experts in marketing have better knowledge about market conditions and customer taste and preferences. This method is similar to executive opinion method but the experts are hired from outside the organization.

k. **Delphi technique:** The Delphi technique is the systematic solicitation of expert's opinion in varying stages, using feedback to develop new forecasts. This method is an extension of expert opinion method. It involves forming a panel of experts and questioning each member of the panel about the future environmental trend. Later, the responses are summarized and returned to the members for assessment. This process continues till the acceptable consensus is achieved.

ENVIRONMENTAL SCANNING PROCESS

Environmental scanning is a process of systematic surveys and interpretation of relevant factors to identify opportunities and threats from the external environment. This means, environmental scanning is the sincere and in depth analysis of the business environment to analyze the opportunities and threats. It helps to gather information about the external world, competitors and the organization itself. On the basis of information scanned from environmental scanning, organizations formulate the new strategies, implement accordingly, and adjust them as per necessity.

Environmental scanning is a systematic process consisting of series of activities. These activities are listed below :
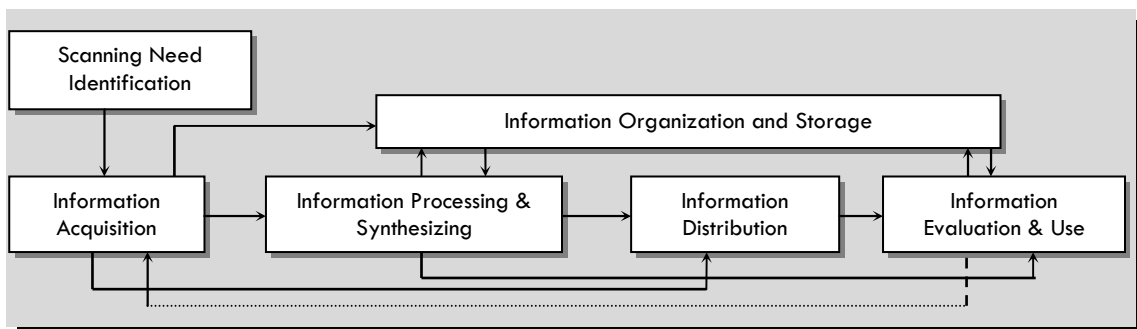
a. **Scanning need identification:** Scanning requires various information to be acquired from internal as well as external environment. Thus, at the first stage, strategist should identify what information are required and from which source they can be achieved. Internal environment, remote and operating environment need to be assessed to collect the information. In this stage, scanner should decide what internal factors and what external factors need to be collected and accessed. For this, issues and problems encountered by the organizations for which scanning to be conducted need to be clear.

b. **Information acquisition:** After determining the information needs, strategists collect those information. External environment provides information regarding the general environmental information while resource capability, internal strengths and the task factors are collected from internal environment and operating environment respectively. In this stage, information normally gathered for the purpose of accumulation. It is continuous process as the information can also be supplied during the phase of distribution. Depending on the quality of information, final or processed information can be directly used for the purpose of evaluation or they can be used for strategy formulation while unprocessed information needs to be processed and synthesized. Information can also be generated, specially feedback information, during the evaluation and use of the final information.

c. **Information processing and synthesizing:** After collecting the information, they need to be processed and synthesized. Information verified and classified into most influential, influential, less influential and useless. They can also be classified into immediate use and future use too. More importantly, information need to be classified on the basis of importance and impact. Some information can be processed to synthesize or formulate new information or more valid information are created. After processing and synthesizing the information, on the basis of requirement, they can be distributed or used for strategy formulation, and modification.

d. **Information distribution:** If the information is required to different unit, department, and/or decision making centers, they need to be distributed. More importantly, all the information cannot be useful for all. Thus, only essential information at essential degree are distributed. Nowadays, management information system, decision support system, etc. store and supply important information for decision making. Many large organizations maintain the information processing, storage and dissemination center for continuous act regarding environment scanning.

e. **Information evaluation and use:** Processed information is finally evaluated for the appropriateness to formulate the strategies. Only the appropriate information are used for the purpose. As being the environmental scanning a continuous process, this stage also provides feedback information to the scanning process. Evaluation and use of the information also identifies the scope and need of further information.

SWOT ANALYSIS

SWOT is an acronym used to describe the particular Strengths, Weaknesses, Opportunities and Threats that are strategic factors for a company. The combination of internal factors analysis summary (IFAS), strategic advantage profile (SAP) and external factors analysis summary (EFAS)/environmental threats and opportunity profile (ETOP) is SWOT analysis. It presents the information about external and internal environment in structured form by which key external opportunities and threats can be compared systematically with internal capabilities and weaknesses.

SWOT analysis is a systematic identification of internal strengths and weaknesses of a business and environmental opportunities and threats facing that business which help to formulate the strategies that reflects the best match between them. It is based on the logic that an effective strategy maximizes a business strengths and opportunities but at the same time minimizes its weaknesses and threats.

SWOT analysis is not only used to identify the capabilities and resources that a firm possesses and the superiors way in which they are used but also used in the identification of opportunities that the firm is not currently able to take advantages due to lack of appropriate resources. Therefore, the objectives of SWOT analysis is to provide a framework to reflect organizational capabilities to avail opportunities or to overcome threats presented by the environment.

Strength (S): Strength is the basic capabilities of the organization in which it can be used to gain competitive advantages. It is a distinct competence of an organization which gives the competitive advantages. Some of the examples of the strengths of an organization are:

- Well-developed strategy
- Strong financial condition
- Human resource competencies
- Strong brand name/image/reputation
- Strong advertising
- Broad market coverage

Weaknesses (W): It is the basic limitation or constraint of the organization which creates competitive disadvantages. It is the deficiency in resources, skills, capabilities and knowledge which negatively affect the performance of an organization. Followings are some of the examples of weaknesses.

- Weak marketing plan
- No clear strategic direction
- Weak financial position
- Inadequate human resources
- Obsolete technology
- Loss of brand name
- Raising manufacturing cost etc.

Opportunities (O): It is the favorable condition in the organization's external environment which enables its strength in its position. It provides competitive advantages to the firm exploiting organization's strength in relation to its competitors. Examples of the opportunities of an organization are:

- Expanding new geographical areas/new market segment
- Diversify the business
- Acquisition of rivals
- Alliance or joint venture
- Expand core business
- Exploit new technologies
- Serving additional customer groups

Threats (T): It is an unfavorable condition of the organization's external environment which causes risk for or damage to the organization's positions. The examples of the threats of an organization are:

- Growing power of customers & suppliers
- Keen competition
- Change in consumer taste, fashion, likes etc.
- Rise of new or substitute product
- Increase in industry rivalry
- Raising labor costs
- Attack on core business etc.

Here is a table to list out the factors which could be strengths, weaknesses, opportunities and threats. Please fill it for your practice.

Strengths	Weaknesses
…………………………….. …………………………….. …………………………….. …………………………….. …………………………….. ……………………………..	…………………………….. …………………………….. …………………………….. …………………………….. …………………………….. ……………………………..
Opportunities	Threats
…………………………….. …………………………….. …………………………….. …………………………….. …………………………….. ……………………………..	…………………………….. …………………………….. …………………………….. …………………………….. …………………………….. ……………………………..

After listing the SWOT factors, for making decisions, their weightages are calculated as the following table:

Summarized Form of SWOT Analysis

Strengths/ Weaknesses	Key issues of the environments						
Main Strengths	Economic	Socio-cultural	Political-legal	Technological	Competitive	+	–
New product development	+	++	+	+	++	7	0
Skilled employee	+	+	+	+	++	6	0
Mass production capacity	0	+	++	++	+	6	0
Good financial structure	+	0	+	+	+	4	0
Effective distribution network	++	++	0	+	+	6	0
Fulfillment of social responsibility	+	+	++	+	–	5	1
Main weaknesses							
No sales forces	–	–	0	–	–	0	4
Poor market research	–	–	–	0	+	1	3
Stable organization structure	–	–	–	–	+	1	4
Dominant stakeholder	0	–	–	–	–	0	4
Poor location and layout	–	–	0	– –	–	0	5
No financial growth	–	– –	+	– –	+	2	5
Total +	6	7	8	7	10		
–	5	7	3	7	4		

SOCIAL RESPONSIBILITY OF BUSINESS

Organizations are established and conduct their functions within the society. They use various resources of society to survive and growth. Because of this, organizations have some social obligations for welfare of the different stake holders of the society. This caring concern of organization for societal benefit is called social responsibility.

Generally, the concepts and definitions of social responsibility have been changing over the years. Views of social responsibility held by organization, the government and the public at large have changed dramatically over the last hundred years.

Koontz and Weihric: "Social responsibility is relating corporate operations and policies to the social environment in ways that are beneficial to the company and society".

Henry Ford: "Service first and profit next should be the motto of every business man in social responsibility."

R.W. Griffin: "Social responsibility is the set of obligations an organization has to protect and enhance the society in which it functions."

John L. Paluszek: "Corporate social responsibility is seriously considering the impact of the company's actions on society."

Davis and Blomstorm: "Social Responsibility is obligation of decision makers to take actions which protect and improve the welfare of society as a whole along with their own interest."

Therefore, social responsibility is the obligation of decision makers on behalf of organization, to take decision that assures actions, protect and improve the welfare of the society along with their own interest. It implies safeguarding the interest of stakeholders of the entire society such as investors, customers, employees, government and community.

There are two contrasting views towards social responsibility of business. On the surface, there seems to be little disagreement about the need for organization to be socially responsible. Many of others argue towards the need of the social responsibility for the future business.

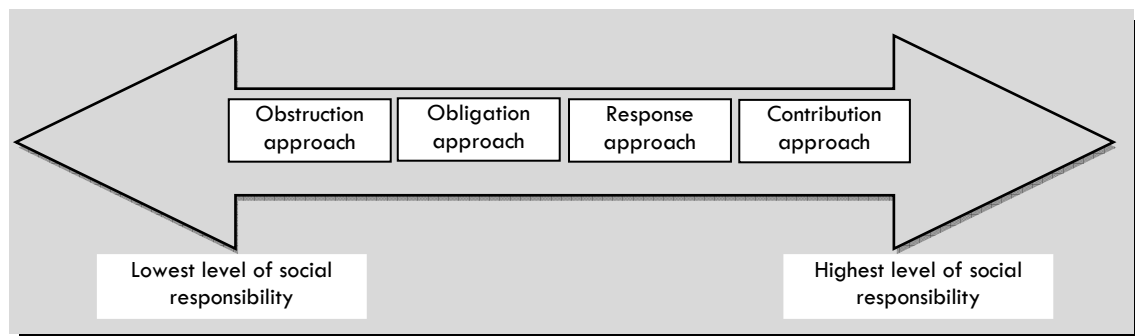Arguments in favor of social responsibility

- Business creates problem therefore to solve them social responsibility the only way out.
- Corporations are citizens in our society therefore to be socially responsible, it is just like the responsibility of a good citizen of the society.
- Business always uses the resources of society to fulfill its objectives therefore in return business needs to work for the betterment of society.
- In order to reduce the political risk in business, organization must bear social responsibility.
- Social responsibility provides the space among the customers. So, to retain good customers, social responsibility has no option.

The major arguments against the social responsibility

- The purpose of business is to generate profit for owners. But social responsibility reduces the profit.
- Involvement in social programs, business gets too much power which becomes the license to misuse social resources.
- Business lacks the expertise to manage social programs. So, it cannot perform social responsibility properly.

APPROACHES OF SOCIAL RESPONSIBILITY

Managers may have a variety of approaches to social responsibility. For example, some managers never consider the consequences of their decisions and hence try to hide different transactions. In the extreme, some managers actively seek to contribute for the society with all the transparent transactions and decisions. Thus, organizations themselves adapt a wide range approaches of social responsibility that ranges from lowest to highest which can be expressed in the following figure:

| Obstruction approach | Obligation approach | Response approach | Contribution approach |

Lowest level of social responsibility — Highest level of social responsibility

1. **Social obstruction approach :** This is an approach towards social responsibility in which managers think there is no need to bear any social responsibility. They think it is not possible to solve social problem or environmental problems by firms. Social responsibility in their vision is only the way to waste their savings. So, the firms with this approach cross the ethical or legal line that separates acceptable from unacceptable practices, i.e. their typical responses are concentrated to deny or just cover up legal actions.

2. **Social obligation approach:** One step ahead from social obstruction in social responsibility is social obligation. Under this approach, organizations conduct everything that is required only for formalities but nothing more. Managers who take a social obligation approach insist that their job is to generate profits with little social contribution just to be free from the action against of being unethical.

3. **Social response approach:** A firm that adopts the social response approach meets its legal and ethical requirements but only in selected cases. Such firms voluntarily agree to participate in social programs but solicitors have to convince the organization that the programs are worthy for their support. Such organizations want to show their contributing for the benefit of society.

4. **Social contribution approach:** The highest degree of social responsibility that a firm can exhibit is the social contribution approach. Organizations with this approach view themselves as citizens in a society and proactively seek opportunities to contribute. They believe the social responsibility is just cultivating their business for future. So, they contribute their maximum possible amount in social welfare.

AREA OF SOCIAL RESPONSIBILITY

Organization in modern days must be responsible to the stakeholders who have interest in them. They can contribute to the society and its stakeholders in various ways. The areas of social responsibility which business have to contribute are consumers, investors, employees and government. Organizations can contribute to them in the following ways :

A. **Responsibility toward consumers:** Consumers are the ultimate user of the products. They are the real sector for the survival and growth of organization. They provide the sales revenue by purchasing the goods and services. Followings are the social responsibilities towards consumers that organizations should bear:
   • Charging reasonable price for products.
   • Providing quality products and after sale services.
   • Advertising with trustful and socially responsible information.
   • Protecting against monopoly and restrictive trade practice.
   • Treating customers fairly in all respects of business transaction.
   • Ensuring the regular supply of healthy, safety and hygienic products.

B. **Responsibility towards investors:** Investors are the real owners of the business organizations. They invest their current saving for the future return. They always expect more and quick profits as dividend. Organization has certain responsibilities towards investors as follows:
   • Maximizing the shareholders wealth.
   • Providing dividends regularly.
   • Providing fair and true financial status.
   • Respect their suggestions, requests, complaints etc. while making policies.
   • Participating in management.

C. **Responsibility towards employees :** Employees are the real translators of policies into action. They perform various jobs to achieve the organizational goals. They sacrifice their lives for the betterment of the organization and hence always expect high salary and other facility from the organization. So, organizations should bear following social responsibilities towards employees:
   • Providing fair remunerations, wages, bonus, and other economic benefits to maintain their living standards.
   • Participating in management.
   • Providing healthy working environment.
   • Providing legitimate decision making and policy making freedom to managers.
   • Providing opportunities of career development.

- • Setting clear authority system, internal autonomy and clear job specifications.
- • Respecting of national and international trade union rights.
- • Establish fair grievances handling mechanism.

D. **Responsibilities towards government:** Government can influence the organization by regulating, controlling and supervising its business. Government provides opportunity and environment for business. It protects business from different ways. So, organizations need to bear social responsibility towards government as below:

- • Paying tax regularly and correctly.
- • Showing political impartiality and fair business practices.
- • Respecting human rights and democratic institutions.
- • Helping to tackle general social problems like unemployment, poverty, inflation, etc.
- • Reporting regularly and correctly as directed by government rule and regulations.
- • Supporting government programs.

E. **Responsibilities towards community:** Business organizations conduct their activities with using social resources in the society. Its activities affect the communities. So, organizations have to give proper priority welfare of such communities. Such responsibilities towards community are listed below:

- • Preventing pollutions and conserving natural resources for environmental protections.
- • Creating employment opportunities in local people.
- • Providing sponsorship for the development of arts, culture, sports, education, etc.
- • Designing and implementation of programs for the weaker sections of society.
- • Utilizing the resources properly.

MANAGEMENT ETHICS

Ethics is defined as individual's personal beliefs regarding what is right and wrong or good and bad. Behavior that confirms to generally accepted social norms as ethical behavior and behavior that does not confirm to generally accepted norms are unethical behavior. An individual ethics is determined by the combinations of family influence, peer influences, life experiences, and personal values, moral and situational factors.

Managerial ethics is the standard of behavior that guides individual manager in their works. Ethical standards of manager are influenced by the action of peer, and top manager, organizational culture and the other environmental factors of that organization.

> **John R.:** "Managerial ethics are principles that guide the actions and decisions of manager, and determine if they are 'good or bad' or 'right or wrong' in a normal sense."
> **Thomas Donaldson:** "Managerial ethics are the standard of behavior that guide individual managers in their work."
> **Jones, Geroge and Hill:** "Ethics are moral principles or beliefs about what is right or wrong. These beliefs guide individuals in their other individuals and group".
> **Ricky W. Griffin:** "Ethics is an individual beliefs about whether a behavior, action or decision is right or wrong. Managerial ethics are the standard of behavior that guides individual managers in their work."

Managers are the decision makers for the survival and growth of organization. Organization cannot be alive itself without managers. Their beliefs, attitudes and entire behaviors are responsible for the long run success of the organization.

The concept of management ethics includes the following elements:

- • Ethics is reflected in an individuals' behavior.
- • Ethical behavior differs from person to person, organization to organization and society to society.

- Ethical behavior confirms to generally acceptable social norms.
- Unethical behavior does not confirm to generally accepted behavior.
- Managerial ethics is influenced by family background, experience, peer influence, level of education, etc.

Significance of Management Ethics

There are three basic area of concern for managerial ethics. There are different facets of the relationships of firm to the employees, employees to the firm and the firm to other economic agents. Managers need to approach each set of relationship from an ethical and moral perspective. Ethical standers affect managerial actions and practices.

The following three domains of managerial ethics express the significance of management ethics.

1. **How the organization treats its employees**: Ethical standards greatly affect hiring and firing, wages and other economic benefits and working conditions to the employees in the organization. These factors also promote employees privacy. Organization can use training, guidelines, code of ethics, and leadership to promote ethical behavior of employees.

2. **How employees treat the organization:** Ethical standards of employees are greatly affected by their treats to the organization in terms of conflicts of interest, organizational secrecy and honesty.

3. **How the organization treats economic agents:** Ethical standards encourage managers to maintain business ethics with stakeholders. It also maintains fair relationship with competitors. It helps manage business ethics in customer relations. Ethical behavior promotes sense of social responsibility in management.

BUSINESS ETHICS

Ethics in general means the acceptable principles, beliefs, conscience, and morals. In broad term, ethics is the situation of integrity on actions and beliefs, actions and principles and actions and set policies. It deals with moral principles and social values. Ethics in day to day life helps to classify, what is good and what is bad?, what is right and what is wrong? It tells us to do good things and avoid doing bad things for benefits of others. Regarding the business ethics, adapting only right practices in real sense suitable for their customers are beneficial for their consumers and treating them fair.

According to Andrew Crane "Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed." This definition gives very simple but broad view regarding following only right decisions and actions of the business organizations. By the business ethics, we can differentiate between the correct and false business activities of the business organizations.

Likewise, Raymond C. Baumhart defines the business ethics as "the ethics of responsibility in which the business man must promise that he will not harm to the society knowingly." Here, business ethics one step ahead, is to contribute to the social benefits by the organization. Here, business ethics can not only be limited to consumers but also to all other components of the business. For instance, for business ethics, the business organization must provide a regular supply of good quality goods and services at reasonable prices to their consumers. Business organization should avoid unfair trade practices like adulteration, misleading advertisements, cheating in weights and measures, black marketing, etc. For the employees, they provide fair wages, good working conditions, growth opportunities and fair treatment to their employees. As ethical business, organizations should avoid any type of exploitations to the consumers, channel members as well as the employees. They must encourage fair business competition in the market. They must deposit taxes regularly to the government, contribute society.

Features of Business Ethics

Business ethics should possess the following features:

- **Code of conduct:** Business ethics is to develop and follow basic code of conduct of any business. Code of conducts is the set of actions to be followed while conducting business activities. Simply, code of conduct list the things regarding what to do and what not to do

with business for the welfare of the consumers, channel members, society and the government. There could be internal code of conduct developed by business organization and the external code of conduct developed by regulatory bodies.

- **Framework for business activities:** Business ethics provides a framework for doing business. It gives the social cultural, economic, legal and other limits of business activities. Thus, business ethics provides basic guidelines for business conduction.

- **Moral and social values based:** Business ethics is normally formulated and practiced based on moral and social values of the business. This means, the business ethics is prepared on the basis of social values, principles and moral issues. For instance, selling alcoholic beverages with registration is ethical but selling it to school children below 18 years is unethical from moral and social values. Business ethics serves as the self-control of business actions. Similarly, consumer protection, employee welfare, social responsibility, etc. are derived from moral and social values.

- **Relative term:** Business ethics is a relative term which is understood in different ways in different situations, different contexts, and for different people. It may be different for business to business.

- **Focus on protection to stakeholders:** Business ethics focuses on protection of rights of different stakeholders such as consumers, employees, creditors, channel members, small business organizations, government, shareholders, society, etc. Through conducting ethical activities, rights and interest of various stakeholders can be protected.

- **Voluntary:** Business ethics is developed and practiced voluntarily in general. For regulation, the regulators prepare code of conducts. For sincere application of the business ethics requires voluntary acceptance of each organization. Business ethics must be like self-discipline, not be enforced by law.

- **Comprehensive**: Business ethics must be comprehensive as the entire people associated with the business i.e. planners, managers, employees, channel members, and other people associated with the business. Thus, ethics must be comprehensive acceptable and contributing towards all the people in the business process. All the people should follow these codes. All the people must be motivated to follow the business ethics. Trade Associations and Chambers of Commerce must also play an active role in this matter. For this, business organizations should run organization socialization as well as the educational programs to make people aware and committed to follow business ethics.

- **Comparatively new concept:** Business ethics is relatively a new concept. It is strictly followed only in developed countries. With increasing educational level, economic prosperity and advancement in technology, concept of business ethics is being wider.

Significance of Business Ethics

Business environment is being more challenging because of growing competition because of globalization. No matter the size and nature of business, none of the organizations can sustain their business with generosity of time, market situation, and its customers without ethical standards. Not only the customers, but employees also pay high value to the organizations with high business ethics in practice. So, business ethics is a supporting pillar for stability, and prosperity of business. More specifically, business ethics has the following significance.

- **Prevents malpractices:** Business ethics prevents business malpractices like treating in unfair trade practices such as black-marketing, unnatural price hiking, adulteration, cheating in weights and measures, selling low quality and harmful products, promoting false commitment, abusive use of natural resources, etc. of various business organizations. Because of business ethics, consumers and the entire society get benefits.

- **Improved confidence:** Customers need to have high level of confidence for making product purchase decisions. Business ethics helps make decisions with greater confidence as the business organizations with business ethics treat fair in terms of quality, utility, reliability, quantity, price, etc. of the products. Business ethics helps to increase the confidence in using

the products as the ethics binds business organizations to maintain trust by offering quality products and services to customers.

- **Survival and growth of business:** Business ethics is the foundation for business survival and growth. Consumers trust those organizations while follow business ethics absolutely because of which consumer's retention can be maintained. But, consumers cannot trust to the business organization which once cheated to them. After being cheated, the consumer do not buy goods or services from that businessman. There will be negative word of mouth i.e. telling tendency to others not to buy that goods. Various research revealed that once consumer feels cheated, s/he tells to 10 consumers while satisfied consumers tell to 4 other consumers. This shows that to survive and grow the business depends upon the business ethics of the organization.

- **Protection of consumers rights:** Business ethics protects the rights of consumers such as right to information, right to choice, right to compensation, right to health and safety, right to be heard, right to redress, etc. Business ethics must safeguard these basic rights of the consumers. This provides sufficient evidence of being socially responsible. Socially responsible organizations get ample opportunity for growth.

- **Develops good relations:** Business ethics follows the fair treatment principles to the consumers as well as with entire business community. This helps develop good and friendly relations between business society. Being ethical in business, community takes the business organization as a good organization. Thus, business ethics helps to maintain good profit and sustainable growth. Along with growing economy, ethical business practice helps improve the standard of living of the society.

- **Good organization image:** Business ethics creates a good image of the organization. If the business follows all ethical rules, then they will be fully accepted by the society. The society always supports such business and businessmen who follow the necessary business ethics and avoids dishonest activities. If the business succeeds in creating and maintaining its goodwill in the society, it flourishes well even in the most competitive markets.

- **Protects employees and shareholders:** Business ethics is required to protect the interest of employees, shareholders, competitors, dealers, suppliers, customers, government, etc. It protects them from exploiting each other through unfair trade practices like cheatings or frauds. Ethics compels each entity participating in the business activity to properly execute its role by adhering the established code of conduct. Since everyone is disciplined and functions appropriately, business grows well in the long run.

- **Healthy competition:** Business ethics is the only way to make competition healthy. If all the business organizations follow business ethics, all of them treat the consumers equally. This increases the fair competition. Healthy competition fosters creativity and innovation, competitive pricing, affordable services, corporate responsibility, consumer satisfaction, etc. In healthy competition, competitors work for market creation and development jointly. It provides equal opportunities to all the business organizations whatever the size and nature of the businesses.

- **Smooth functioning:** As discussed earlier, business following business ethics makes the stakeholders i.e. employees, shareholders, consumers, dealers, and suppliers happy. Happy stakeholders fully cooperate the business which helps in smooth functioning of business activities. Effectiveness, efficiency, productivity and profitability of the business organization. Thus, business ethics maintains ultimate level of satisfaction and protects the business from being dysfunctional.

- **Consumer satisfaction:** Satisfied consumers are the source of business success. With business ethics, business organizations can satisfy the customer's expectations at their level best. Business ethics pushes business organization working with keeping the consumers at the center. The consumer's satisfaction becomes high only if the business follows the business ethics.

- **Supportive employees:** Employees are the next key players in organizational success from consumers. A business must use business ethics while dealing with its employees. Through fair treatment in compensation management, growth opportunity, participation, providing good working condition, etc. employee's satisfaction can be improved. The business must also provide good working conditions for its employees. Satisfied employee's level of commitment remains at high level. Thus, by adapting business ethics, organization can maintain good labor relation and reduce the labor related problems.

EMERGING BUSINESS ENVIRONMENT IN NEPAL

Business environment is dynamic in nature as its components keep on changing continuously. Specially, changes in external environment makes the business environment complex and dynamic. Nepalese society is also changing fast in various sectors. Following sectors changes are emerging business environment in Nepal in these days.

1. **Economic system and policy:** Economic environment is rapidly changing in Nepal because of adapting open market economy, privatization and deregulation. Nepal follows mixed economic system and open market policy. Open market policy creates the challenge to existing business organizations while opportunity to the upcoming business organizations. A large number of banks and financial institutions throughout the nation have widen the banking opportunities to people. About 9.1% GDP depends upon remittance which seems to be unrealistic for sustainable economic growth.

2. **Increasing buying power of consumers:** Purchasing power of the people in the country is sharply increasing. Remittance has the great role in increasing purchasing power. Expanding construction works has increased employment to the unskilled and semi-skilled people within the country. Increased purchasing power of consumer creates the opportunity to the business.

3. **Political instability:** Political issues and system in the country are being settled though stability is still being questionable. Nepal got almost two-third majority for government though unfortunately, the government could not operate for full term. Political stability has shown its impact in capital market and in the foreign direct investment. Political stability increases the business confidence index (BCI) for existing business organizations and foreign investors too.

4. **Increasing female involvement in economic activity:** In recent years, maximum number of female are being involved in economic activities. Because of which different components in social-economic dimensions. Marriage age is extending and number of child bearing is decreasing which will decrease the market potential while increasing economic sources increases the willingness to purchase goods. Not only the basic things but they purchase additional goods for luxury goods. They create employment opportunities for others, for instance, if both husband and wife are working, they may search another person to take care of their home. Such spill-out effect will increase the opportunities to the business.

5. **Excessive use of communication technology:** Nepalese people are adapting information technology very fast. Use of internet is sharply increasing because of which the mode of business promotion need to be changed. Online purchasing practices are being increasing rapidly which need to be addressed by business organizations. Point of display, supply chain management and quality assurance should be addressed rightly.

6. **Changing attitude of consumers:** Consumers are losing their commitment and loyalty to particular products as they are getting new products of high quality at low price rate. So, the organizations should gradually improve the quality of product and reduce the cost of production. Losing the loyal consumer is the greatest challenge to the existing business organizations.

7. **Rapid technology change:** Technology change creates business competitiveness while challenge to the organizations who cannot invest in technology development and innovation. New technology helps to decrease the cost of production and increase the quality assurance. Specially, the Nepalese

organizations are suffering badly because of rapid technology changes as they cannot invest large capital in technology advancement.

8. **Natural calamities and pandemic:** In latest few years, natural calamities like earthquake, landslide, flood, fire, etc. are being frequent in Nepal. Such natural calamities have increased the challenges to business organizations for acquiring raw materials, supplies and supply chain management. Covid-19 pandemic has changed the business ecosystem. Many organizations based on import trade are badly suffered. Production system is badly affected by poor human supply, supplies and transportation system.

9. **Increasing consumerism:** In these days, consumers and the associations for consumers' right are being aware and active. Consumers are aware about the constitutional rights of the consumers and wish to have strong commitment from business organizations. This situation has created challenges to be more loyal and committed.

SUMMARY OF LEARNING OBJECTIVES

❐ **Concept of Business Environment**

Business environment is the overall business climate created by the composition of internal and external forces within which an enterprise operates for its economic activities. A business environment thus, can be defined as the composite set of internal and external forces which affects to the whole business cycle directly or indirectly towards the dynamic situations. Generally organizations are influenced by two sets of environmental factors. The environment that affects directly to the business organization is internal factor. Such factors can be controlled by the management through its functions, planning and policies, organization structure, organization culture, etc. The environment which affects the organization indirectly is called external environment. It is composed of political-legal, economic, socio-cultural, technological, etc. factors. External factors are beyond the control of an organization. Factors of external environment are uncertain and complex to estimate and predict their effects.

❐ **Types of Environment**

Business environment can be divided into two types as internal environment and external environment.

1. **Internal Environment:** Organizations have their own environment consisting of many forces situated within organization which is known as internal environment. Factors of internal environment are controllable. Internal environment of the business provides strength and weakness to it. The internal environment of the organization consists of following factors :
   - Organizational resources
   - Organization culture
   - Organization structure
   - Organization goals and principles

2. **External Environment:** External environment is composed of the factors consisting beyond the organizational scope. They cannot be controlled by organizational management. External environment provides opportunities and threats. External environment further can be classified into two parts i.e. task and general environment described as below:
   a. **Task environment:** An organization is formed with many stakeholders like customers, suppliers, competitors, financial institution, distributors and other interested groups. They are called factors of task environment as they affect the task or activities of the organization. The main components of task environment are as follows:
      i. Customers   ii. Suppliers and Distributors   iii. Financial institutions
      iv. Interest and Pressure groups   v. Government   vi. Competitors
   b. **General Environment:** The general environment is the main part of external environment. It is the set of broader forces in organization's surroundings. These factors are located outside the organization and cannot be controlled by the organization. The major external environmental factors are explained below :
      i. **Economic environment**
         - Economic system
         - Economic condition of country
         - Economic policy
         - Globalization economic situation

    ii. **Political environment**
- Constitution of country
- Separation of power relationship
- International political events
- Political system
- Government-business
- Other factors

    iii. **Social-cultural environment**
- Social institutions
- Attitudes and Beliefs
- Social class
- Demographic factors
- Religion and Language
- Other factors

    iv. **Technological environment**
- Level of technology
- Acquisition or making policy
- ICT
- Pace of technological change
- Technology transfer policy

3. **Environmental scanning:** Environmental scanning is the process of collecting business related information in the organization. It is thus, act of accumulating organizational internal and external environmental factors which may have direct or indirect, immediate or long term, operational or strategic issues.

4. **Importance of Environmental Scanning**
   a. SWOT Analysis
   b. Optimal use of resources
   c. Helps in decision making
   d. Growth and stability of business
   e. Business strategy formulation

❑ **Methods of Environmental Scanning**
   a. Extrapolation method
   b. Historical analogy
   c. Intuitive reasoning
   d. Scenario building
   e. Cross-impact matrix
   f. Morphological analysis
   g. Network methods
   h. Model building
   . Executive opinion method
   j. Expert opinion method
   k. Delphi technique

❑ **Environmental Scanning Process**
   a. Scanning need identification
   b. Information acquisition
   c. Information processing and synthesizing
   d. Information distribution
   e. Information evaluation and use

❑ **SWOT Analysis:** SWOT analysis is a systematic identification of internal strengths and weaknesses of a business and environmental opportunities and threats facing that business which help to formulate the strategies that reflect the best match between them. It is based on the logic that an effective strategy maximizes a business strengths and opportunities but at the same time minimizes its weaknesses and threats.

❑ **Concept of Social Responsibility of Business:** Social responsibility is the obligation of decision makers on behalf of organization, to take decision that assures actions protect and improve the welfare of the society along with their own interest. It implies safeguarding the interest of stakeholders of the entire society such as investors, customers, employees, government and community.

❑ **Approaches of Social Responsibility**

Managers adapt a wide range of approaches of social responsibility ranges from lowest to highest, which are:

1. **Social obstruction approach :** This is an approach towards social responsibility in which managers think there is no need to bear any social responsibility. Firms with this approach cross the ethical or legal line that separates acceptable from unacceptable practices, i.e. their typical responses are concentrated to deny or just cover up legal actions.

2. **Social obligation approach**: Under this approach, organizations conduct everything that is required only for formalities but nothing more. Managers who take a social obligation approach insist that their job is to generate profits with little social contribution.

3. **Social response approach:** A firm that adopts the social response approach meets its legal and ethical requirements but only in selected cases. Such firms voluntarily agree to participate in social programs.

4.   **Social contribution approach**: Organizations with this approach view themselves as citizens in a society and proactively seek opportunities to contribute. They believe the social responsibility is just cultivating their business for future.

❒   **Area of Social Responsibility**

Organizations can contribute to them in the following ways:

- Responsibility toward Consumers
- Responsibility towards Investors
- Responsibility towards Employees
- Responsibilities towards Government
- Responsibilities towards community

❒   **Management Ethics**

Managerial ethics is the standard of behavior that guides individual manager in their works. Ethical standards of manager are influenced by the action of peer, and top manager, organizational culture and the other environmental factors of that organization.

The concept of management ethics includes the following elements:

- Ethics is reflected in an individuals' behavior.
- Ethical behavior differs from person to person, organization to organization and society to society.
- Ethical behavior confirms to generally acceptable social norms.
- Unethical behavior does not confirm to generally accepted behavior.
- Managerial ethics is influenced by family background, experience, peer influence, level of education, etc.

❒   **Significance of Management Ethics**

The following three domains of managerial ethics express the significance of management ethics.

- How the organization treats its employees
- How employees treat the organization
- How the organization treats economic agents

❒   **Business Ethics :** Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed. By the business ethics, we can differentiate between the correct and false business activities of the business organizations. Business ethics is the ethics of responsibility in which the businessman must promise that he will not harm to the society knowingly.

❒   **Features of Business Ethics**

- Code of conduct
- Moral and social values based
- Focus on protection to stakeholders
- Comprehensive
- Framework for business activities
- Relative term
- Voluntary
- Comparatively new concept

❒   **Significance of Business Ethics**

- Prevents malpractices
- Survival and growth of business
- Develops good relations
- Protects employees and shareholders
- Smooth functioning
- Supportive employees
- Improved confidence
- Protection of consumers' rights
- Good organization image
- Healthy competition
- Consumer satisfaction

❒   **Emerging business environment in Nepal**

1. Economic system and policy

2. Increasing buying power of consumers

3. Political instability

4. Increasing female involvement in economic activity

5. Excessive use of communication technology

6. Changing attitude of consumers

7. Rapid technology change

8. Natural calamities and pandemic

9. Increasing consumerism

EXERCISE

Brief Answer Questions:
1. Define business environment.
2. State and explain different types of business environment.
3. What are various components of business environment? State.
4. How technological environment affects business? Explain.
5. List different components of political environment of business.
6. Define social responsibility of business.
7. What are different areas of social responsibility of business? State.
8. Explain different approaches towards the social responsibility of business.

Descriptive Answer Questions:
9. Define business environment. Explain its impact on an organization.
10. What are some of the factors creating more complex and uncertain environment for organizations in our society?
11. What are the components of economic environment? Why is economic environment considered as the most significant of the environment forces?
12. Give the concept of business environment and explain the components of an organization's internal environment?
13. Explain business environment. Explain different impacts of general environment on business.
14. What are the components of technological environment? How can technology affect business?
15. Define socio-cultural environment of business. How can it affect the business?
16. Define business environment. Explain how can political-legal environment affect the business?
17. Define social responsibility of business. Describe the different approaches to corporate social responsibility.
18. What is meant by task environment? Explain the components of task environment?
19. Define management ethics. Why management ethics is important in current situation?
20. State and explain the emerging business environment in Nepal.

Analytical Answer Questions:
21. Apply the system theory concept to an organization with which you are familiar. What are its inputs and outputs? What are the challenges in managing an organization from the system theory perspective?
22. What is meant by business environment? Discuss the organization-environment relationship.
23. 'Business is an economic institution operating in socio-political environment.' Do you agree? Give reasons.
24. As a socio-economic institution, every business firm should be committed to fulfilling varied responsibilities towards its stakeholders. In the light of this statement, define social responsibility of business and discuss the areas of corporate social responsibility.
25. Business is an economic institution operating in socio-political environment. In the light of this statement, define business environment and discuss each of the basic components of the general environment.
26. Business can run no longer without management ethics. On the light of this statement explain the concept of management ethics and its significance.

CASE

The jingle tone **R-A-R-A** rara, mitho bhanchhan sara is the common to all middle aged people as RARA was the noodle who set the taste of noodle to common people in Nepal and even in SAARC region. Himshree Foods Private Ltd., established in 1981 AD, in Pokhara, with initial capital investment of NRs. 7 million. It started producing unique white noodle first time in Nepal with Japanese technology. Himshree achieved a Barcelona Food Award, 1986.

Himshree started to manufacture brown noodles: Aaha, Aaha 50, A-One and Fewa. These brown noodles are available in different seasonings such as vegetable, chicken and mutton. Himshree owns white noodles named

RARA and Himali, Brown noodles named Asha, A-one, Sara, Oho, Rupa, Fewa and Majjako and Snacks. Noodle at that time was the choice of high income person as many people preferred to have domestic foods. However, it soon expanded its distribution among the general public.

Himshree focuses on providing the standard quality product to its valued customers. Currently, it has imported a high tech machine from Sujuki Company having production capacity of 10,000 units per day. Company has maintained good management practices of compulsory laboratory test and is certified by ISO 9001:2000, use of eco-friendly production and packaging. For packaging purpose, Himshree imports the packaging plastic from Switzerland which helps to keep noodles edible for 9 months from the date of manufacturing.

Company functions a self regulatory mechanism for monitoring the activities of the company to ensure active compliance with the spirit of law, ethical standards and national and international norms. It expresses senses of responsibilities to the both community and the environment in which it operates.

As a responsible social business, company has been contributing into different sectors such as educational institution, operating hydropower projects, hospitality, housing, construction management, and foods. Aaha-RARA Gold Cup is being organized by the company since long to develop Football among the youths. Company helps for environment conservation by organizing a small event for plantation at least twice a year.

Noodle is being more popular among the youths, office bearers, and almost in every household kitchen menu. It shows the evidence for increasing Noodles market in Nepal. At the same time different Nepali brands as well as foreign brands are emerging in the market. Wai Wai is the most popular brand in Nepal but it has some fundamental differences in product and the customer nature. Wai Wai is available with many flavors and is ready to eat type. RARA has two challenges firstly it should cover larger segment of consumer and maintain the production capacity. RARA is not much popular among youth. It is the challenge to uplift the product quality and type to satisfy the customer's needs. There is problem in distribution system of RARA, basically it is unavailable mainly in the eastern market and Kathmandu valley.

Questions
1. Prepare the SWOT profile of RARA noodles.
2. What are the internal and external environments of RARA noodles.
3. Prepare Porter's model in context of RARA.
4. Advice strategies for RARA to be more competitive in the Nepali market.

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