



POKHARA UNIVERSITY

BBA 1 SEMESTER: POM

UNIT — III

ENVIRONMENTAL CONTEXT



LALITPUR, NEPAL

**CITIZEN
COLLEGE**

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Concept of Environment





Concept of Environment

Definition:

The Organization's environment consists of "the actors and forces outside marketing that affect marketing management's ability to develop and maintain successful transactions with its target customers."

Philip Kotler, 1994



Concept of Environment

- Managers must have a deep understanding and appreciation of the environment in which they and their organization function.
- The environment of business is the aggregate of conditions, events and influences that surround and affect it.
- The organization is the part of a broader social system, it has to work within the framework provided by the society and its constituents.



Concept of Environment

- While analyzing the total (macro) environment, it is effective first to deal with the external forces and then the internal ones.
- The external environment reveals opportunities and threats and internal environment uncovers strengths and weaknesses.
- An opportunity is a favorable condition and enables strengthening a firm's position.
- A threat is an unfavorable condition and the company need to be cautious in handling it.



Concept of Environment

- Companies must evaluate both micro and macro-environment to identify:
 - any trends that may affect their marketing strategies, and
 - opportunities that can be developed into competitive advantages
- Every organization must strike a happy balance between environment, values and resources.



Concept of Environment

- Environment analysis can help ensure organization success, helps firms to adjust to environmental change at the right time, encashing opportunities as they arise and eliminating the negative impacts of environment threats through proactive planning.
- Every organization must strike a happy balance between environment, values and resources.
- Understanding the nature of environment helps strategists to focus on alternatives that help achieve predetermined goals and eliminate options that are not in line with.



Study of Environment

By studying the external environment, firms identify

- what they *might* choose to do

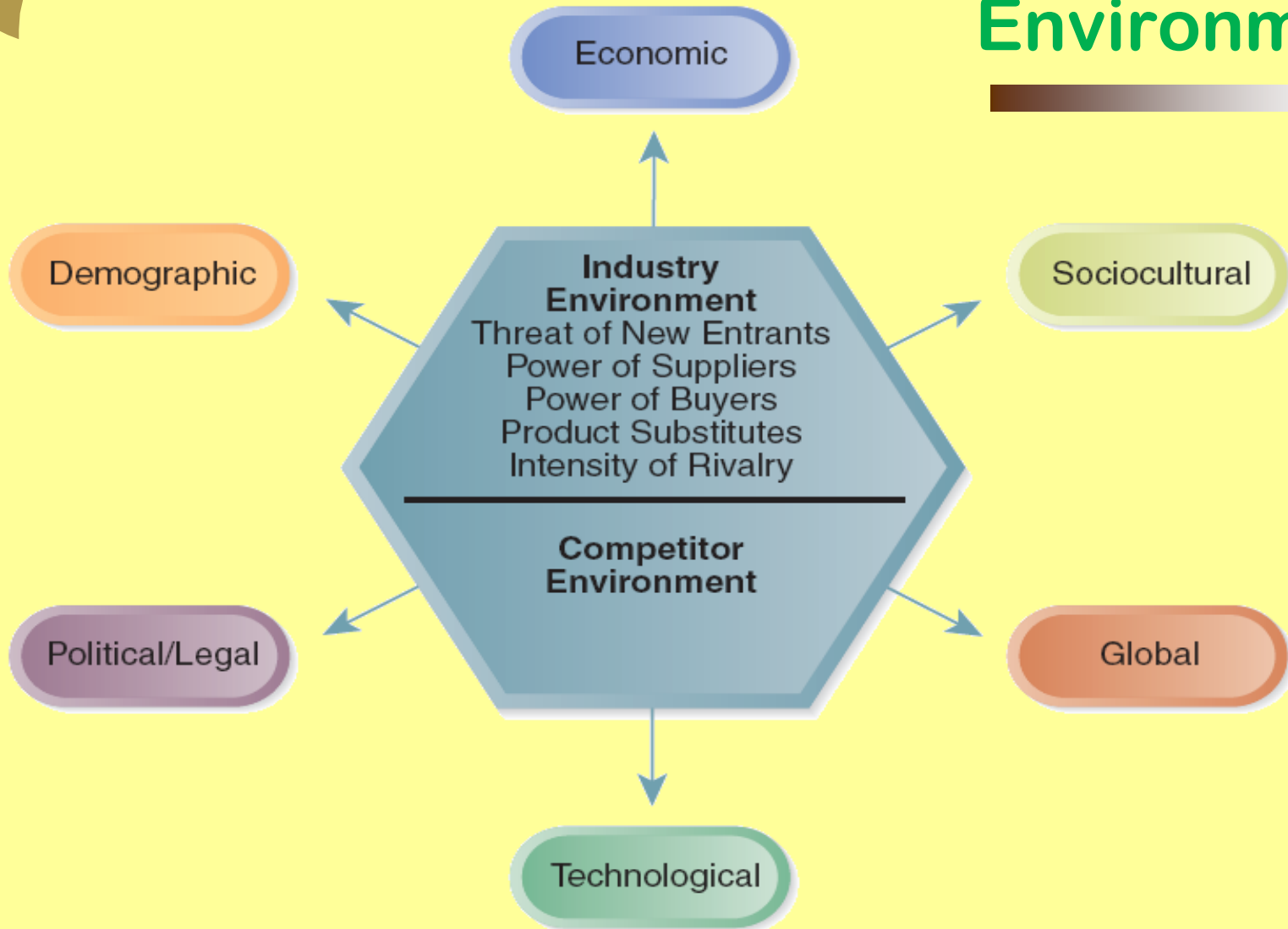
By studying the internal environment, firms determine

- what they *can* do

Examine opportunities and threats

Examine unique resources, capabilities, and competencies (sustainable competitive advantage)

The External Environment





External Environment

A continuous process which includes:

- | **Scanning:** Identifying early signals of environmental changes and trends in all sectors around the organization.
- | **Monitoring:** Detecting meaning through ongoing observations of environmental changes and trends.
- | **Forecasting:** Developing projections of anticipated outcomes based on monitored changes and trends.
- | **Assessing:** Determining the timing and importance of environmental changes and trends for firms' strategies and their management.



External Environment

■ General environment

- Focused on the future

■ Industry environment

- Focused on factors and conditions influencing a firm's profitability within an industry

■ Competitor environment

- Focused on predicting the dynamics of competitors' actions, responses and intentions



Demographic Environment

Demographic trends:

- Changing age structure
- Changing family structure
- Geographic shifts in population
- Higher education level & more white collar job holders
- Increasing globalization of cities such as Singapore



Economic Environment

Economic trends affecting consumers buying power and spending pattern:

- Change in per capital real income
 - Disposable
 - Discretionary
 - Income distribution
- Savings & debt
- Consumer expenditures
- Change in interest rates and cost of living



Global Environment

■ The Global Segment

- Product innovations
- Applications of knowledge
- Focus of private and government-supported R&D expenditures
- New communication technologies



Technological Environment

Consists of forces that affect new technology, new product development and market opportunities.

- Faster pace of technological change
 - Shorter PLC
- Higher R&D budgets
- Concentration on minor improvements
- Increased regulations



Socio Cultural Environment

Affect society's basic values, perceptions, preferences and behaviors.

- Core cultural values and beliefs
- Secondary cultural values
- Sub cultures

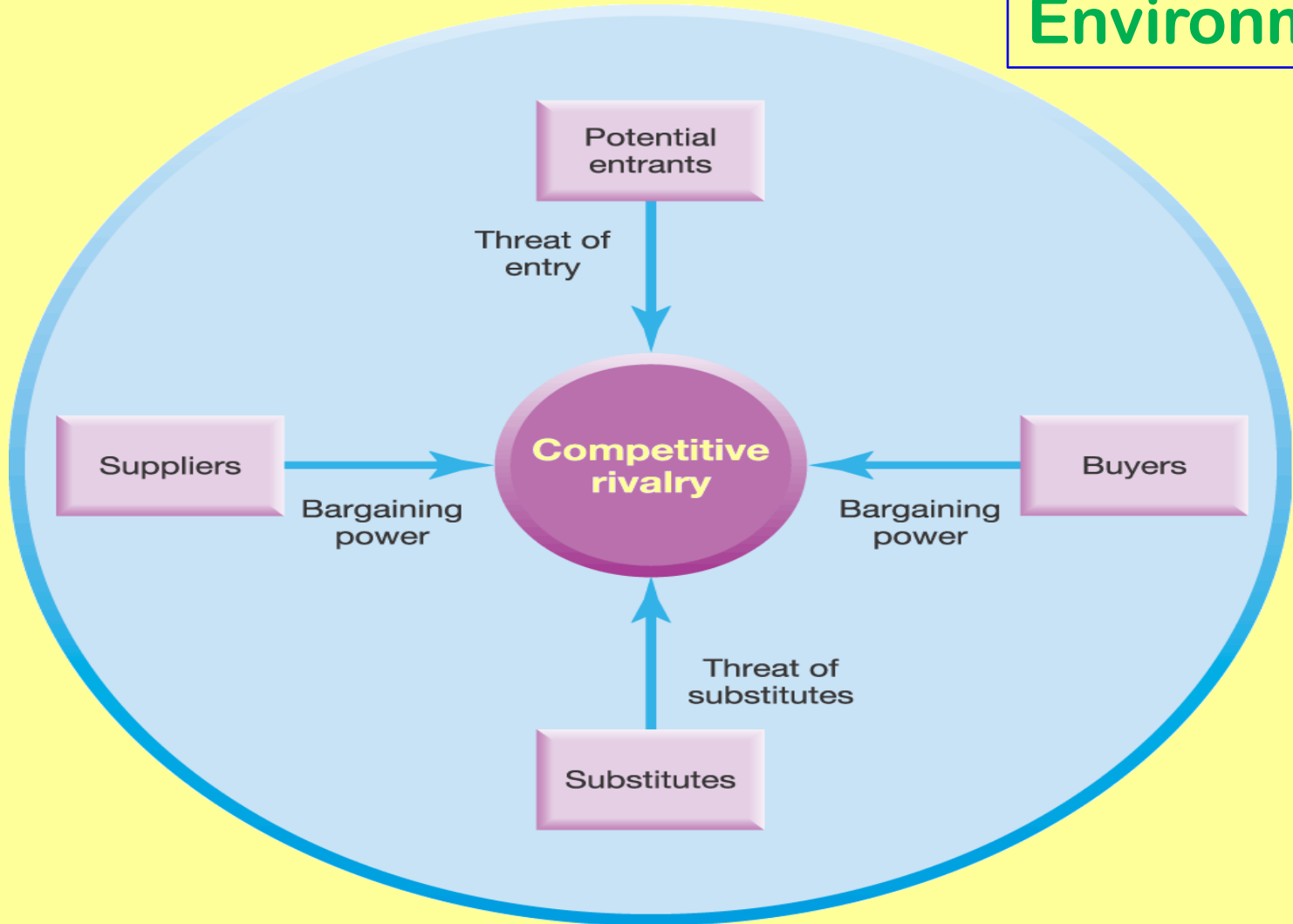


Legal & Political Env.

Trends in the legal and political environment include:

- Increased legislation regulating business
- Changing government agency enforcement
- Growth of public interest groups
- Regional groupings

Industry Environment





Competitor Analysis

- Competitor Intelligence
 - The ethical gathering of needed information and data that provides insight into:
 - A competitor's direction (*future objectives*)
 - A competitor's capabilities and intentions (*current strategy*)
 - A competitor's beliefs about the industry (*its assumptions*)
 - A competitor's *capabilities*



Competitor Analysis

Why Competitive Strength Assessment should be done?

- Reveals firm's competitive position
- Pinpoints the company's competitive strengths and weaknesses
- Identifies competitive advantage, parity, or disadvantage
- Identifies possible offensive attacks
- Identifies possible defensive actions



Competitor Analysis Components

Future objectives

- How do our goals compare with our competitors' goals?
- Where will emphasis be placed in the future?
- What is the attitude toward risk?

Current strategy

- How are we currently competing?
- Does this strategy support changes in the competitive structure?

Assumptions

- Do we assume the future will be volatile?
- Are we operating under a status quo?
- What assumptions do our competitors hold about the industry and themselves?

Capabilities

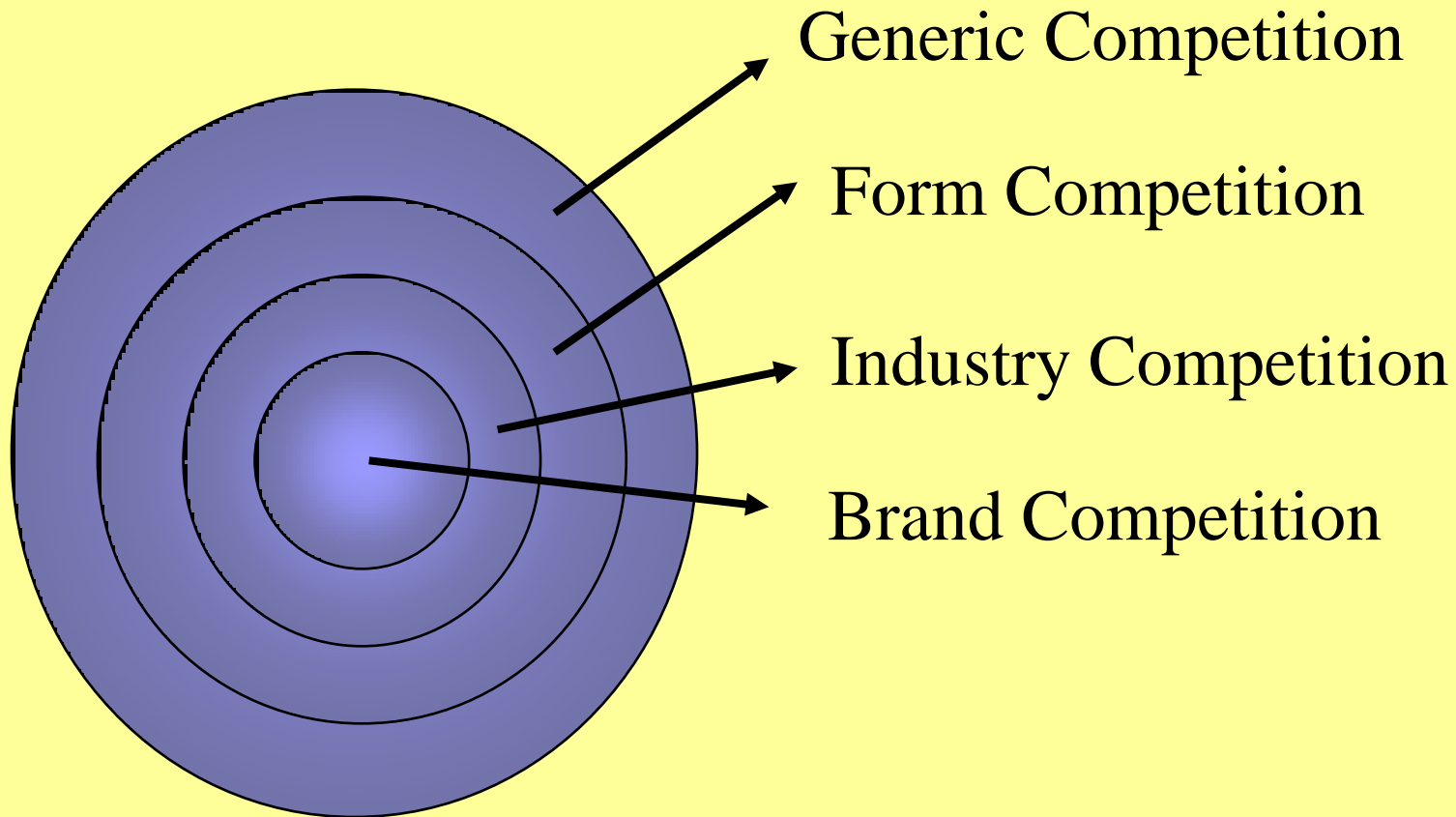
- What are our strengths and weaknesses?
- How do we rate compared to our competitors?

Response

- What will our competitors do in the future?
- Where do we hold an advantage over our competitors?
- How will this change our relationship with our competitors?



Levels of Competition





The Context of Internal Analysis

- Effective analysis of a firm's internal environment (learning what the firm can do) requires:
 - Fostering an organizational setting in which experimentation and learning are expected and promoted
 - Using a global mind-set
 - Thinking of the firm as a bundle of heterogeneous resources and capabilities that can be used to create an exclusive market position



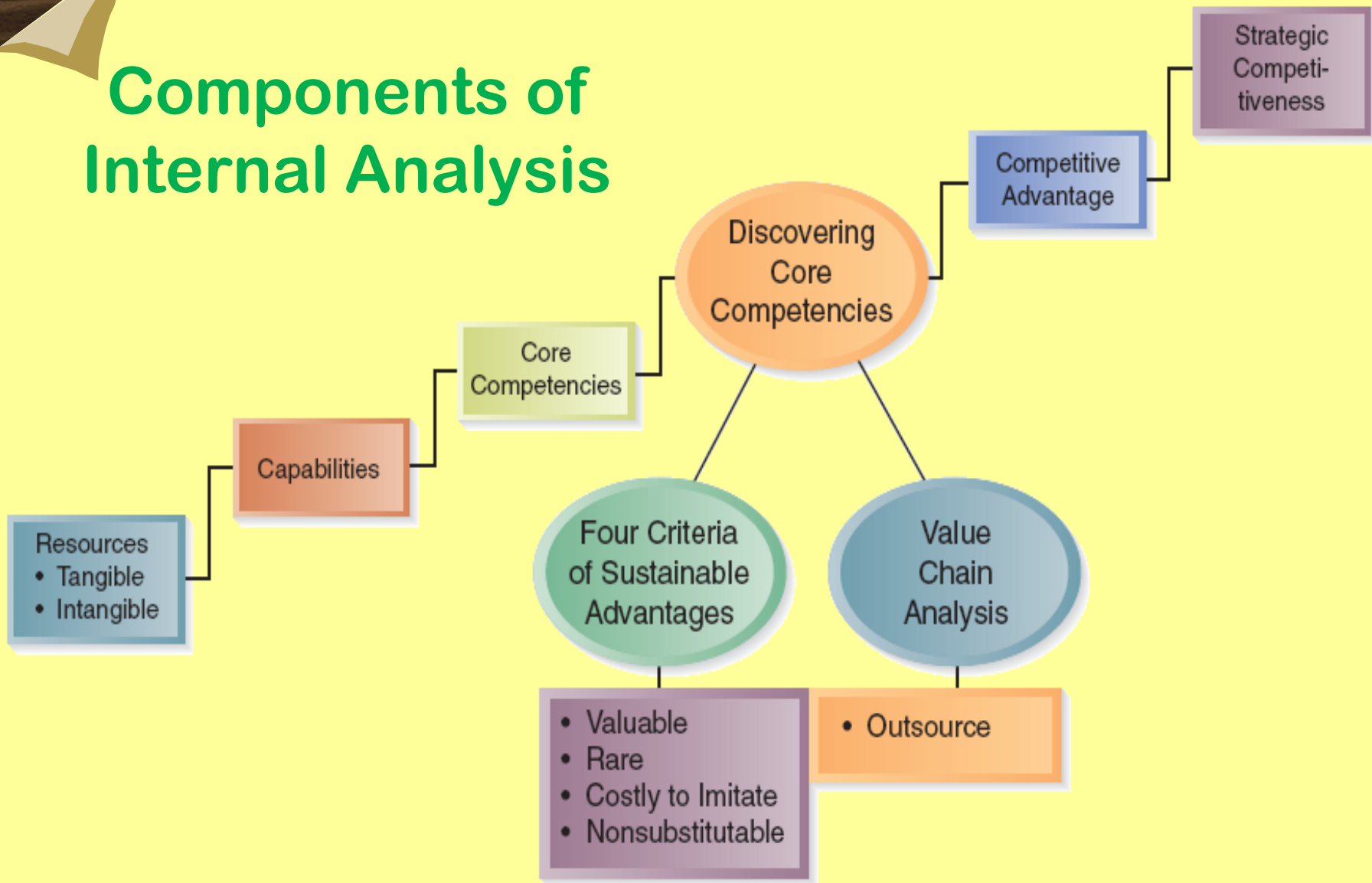
Basis of Internal Analysis

Strengths and Weaknesses form the basis of Internal Analysis

- By examining strengths, you can discover untapped potential or identify distinct competencies that helped you succeed in the past.
- By examining weaknesses, you can identify gaps in performance, vulnerabilities, and erroneous assumptions about existing strategies.



Components of Internal Analysis





Internal Analysis: Challenges

- Strategic decisions in terms of the firm's resources, capabilities, and core competencies:
 - Are non-routine
 - Have ethical implications
 - Significantly influence the firm's ability to earn above-average returns



Internal Analysis: Challenges

- To develop and use core competencies, managers must have:
 - Courage [“guts!”]
 - “Street Smarts”
 - Self-confidence
 - Integrity
 - The capacity to deal with uncertainty and complexity
 - A willingness to hold people (and themselves) accountable for their work



Conditions Affecting Managerial Decisions about Resources, Capabilities and Core Competencies

Condition



Uncertainty

regarding characteristics of the general and the industry environments, competitors' actions, and customers' preferences

Condition



Complexity

regarding the interrelated causes shaping a firm's environments *and* perceptions of the environments

Condition



Intraorganizational Conflicts

among people making managerial decisions *and* those affected by them



Competitive Advantage

- Firms achieve strategic competitiveness and earn above-average returns when their core competencies are effectively:
 - Acquired
 - Bundled
 - Leveraged
- Over time, the benefits of any value-creating strategy can be duplicated by competitors.



Competitive Advantage

- Sustainability of a competitive advantage is a function of:
 - The rate of core competence obsolescence due to environmental changes.
 - The availability of substitutes for the core competence.
 - The difficulty competitors have in duplicating or imitating the core competence.



Organization Environment Relationships

Three Component Relationship of the Firm to the Business Environment

- **Deterministic** - Regulatory, legal and market structures taken as givens.
- **Probabilistic** – Areas where the firm has the ability to increase its odds of success.
- **Random** – Uncontrollable and uncertain elements from which the firm can attempt to protect itself.



Org. Env. Relationships

Why do organizations care so much about factors in the external and internal environment? The reason is that the environment creates uncertainty for organization managers, and they must respond by designing the organization to adapt to the ongoing changes in the always dynamic environment.



Org. Env. Relationships

The organization and environment share a closed loop interaction. Environment affects the organization followed by the generation of a response from the organization, thus completing the cycle. It implies that the effect of environment on the organization cannot be fully understood without evaluating the organizational response.



Org. Env. Relationships

- The change in the business environment brings both opportunities and threats for the organization.
- To overcome this business dynamism, companies require certain predictability mechanisms which can guard them against the unanticipated threats or overlooked business opportunities.
- The solution lies in environmental scanning which refers to the process of monitoring and evaluating the business environment. It helps in adjusting the business tactics in case of a change in the business environment.
- In contrast to the micro level, the macro forces are not company specific. Additionally, the macro forces have a wide scope and tend to influence the micro environment of the business to a great extent.



Org. Env. Relationships

Three main factors associated in organization-environment relationships:

1. Environmental Uncertainty

- Organizations must manage environmental uncertainty to be effective.
- Uncertainty means that managers do not have sufficient information about environmental factors to understand and predict environmental needs and changes.



Org. Env. Relationships

2. Adapting to the Environment

- If an organization faces increased uncertainty with respect to competition, customers, suppliers or government regulations, managers can use several strategies to adapt to these changes including inter-organizational partnerships, and mergers or joint ventures.



Org. Env. Relationships

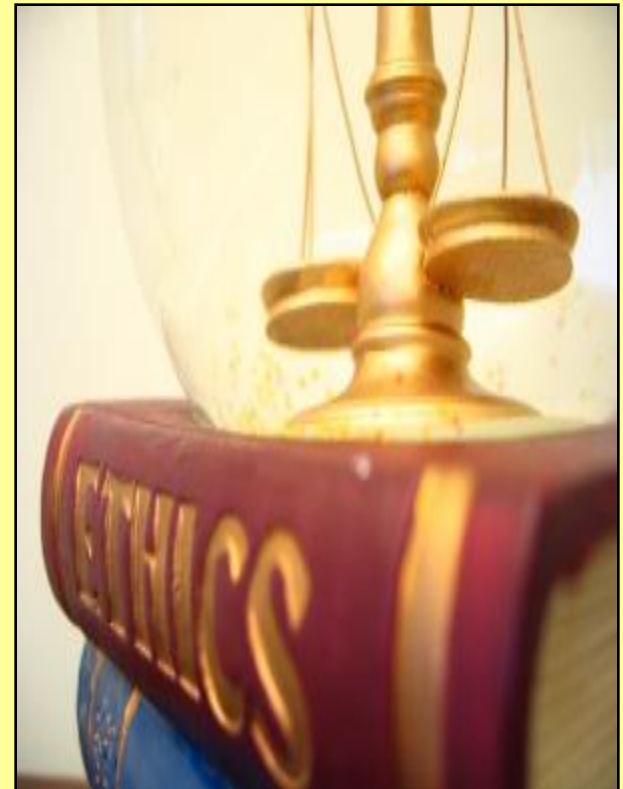
3. Boundary Spanning Roles

- Roles assumed by people and / or departments that link and coordinate the organization with key elements in the external environment.
- Boundary spanners serve two purposes for the organizations: they detect and process information about changes in the environment; and, they represent the organization's interest to the environment.
- A growing area in boundary spanning is *competitive intelligence* (CI), which refers activities to get as much information as possible about one's rivals.



Managerial Ethics

The term ETHICS refers to value-oriented decisions and behavior. The word ethics comes from the Greek root, 'ethros', meaning character, giving beliefs, standards, or deals that pervade a group, a community, and people. Today ethics is the study of moral behavior, the study of how the standards of moral conduct among the individuals are established and expressed behaviorally.





Managerial Ethics

Understanding '**what is business ethics**' is more than understanding the difference between *right and wrong*; often it means understanding, and acting upon, the difference between *right and right* (when two choices are very similar but the cost (tangible or intangible) of one may be higher than the cost of another).



Managerial Ethics

- **Ethics in leadership and management** of a business is in high demand.
- The end user / consumer, and the public as a whole, is weary of unprincipled, immoral, unscrupulous and disreputable business practices.
- And even while many businesses do not operate to one extreme (highly unprincipled) or another (highly ethical), the marketplace wants to work with, and support, businesses and products they can trust.
- That means having leadership and management on which you can depend to implement positive workplace ethics and behaviors.
- It also means that as a business leader you need to ensure the culture in your business is focused on ethical practices and that all employees and stakeholders are aware of that commitment.



Managerial Ethics and Social Responsibilities

- The term ‘social responsibility’ conveys the moral conduct that relates to such broad issues as environmental pollution, discrimination, poverty, unemployment and inflation.
- Accordingly, an organization whose practices contribute to inflation, unemployment, increased poverty and like would be viewed as socially irresponsible—as not fulfilling its responsibility to society.
- An automobile manufacturer who produces cars with faulty brakes, a pharmaceutical house that makes false claims about its cold remedies, or a food company whose TV ads promote substandard food items are socially irresponsible.



Managerial Ethics and Social Responsibilities

Some people feel that social responsibility is linked to organization and ethics to individuals, but this is not a useful distinction. In the final analyses, decisions are made by people and therefore, individual managers at some level must assume responsibility for every corporate decision. The executive who lies about a competitor's product, the manufacturer who markets a highly inflammable article of clothing, the industrialist who dumps pollutants into a stream-all behaves in an ethically irresponsible way. The most responsible way to distinguish business ethics from social responsibility is in terms of a decision's implications for society as a whole. Within this frame of reference, business ethics are concerned with 'micro-ethics' (relating to daily operating decisions with limited social impact), social responsibility is concerned with 'macro-ethics' relating to decision with broad implications for a large segment of society.

Emerging Business Environment in Nepal





Emerging Business Environment in Nepal

Nepal is included in the list of the least developed countries. The responsible causes for Nepal to be least developed countries are:

- Not to appear in the world arena till 1950,
- Not to develop basic infrastructure,
- To be geographically landlocked,
- Not to be dedicated in development, etc.



Emerging Business Environment in Nepal

- ❖ But Nepal has been marching towards industrialization in a planned way for the last some years. It has emerged through the 10th plan.
- ❖ Nepal has adopted mixed economy. It has adopted the policy of free market and economy liberalization after 80s.
- ❖ Nepal has already privatized some of the state owned public corporation. The government has also adopted the policy to hand over state owned enterprises to private sectors expect those related to defense and other basic needs.
- ❖ The government has made no policy to nationalize any private company.



Emerging Business Environment in Nepal

- ◆ The social awareness of Nepalese people has already risen high. Consumers are conscious. Consumer's forum, Environment Protection forum etc. are active.
- ◆ Nepal civil society has awakened. Nepal has remained active in different international forum. Nepal has expressed its commitment in different international issues. Employee's participation is increasing in decision making process.
- ◆ High level technology and methods have transferred. So private sector investment is increasing in core industries. Private sector is developing and multinational companies are appearing.



Emerging Business Environment in Nepal

Increase of private investment in core industries:

Nepal's core industries such as electricity, communication, transportation etc. were conducted only by the government. But now the government has adopted open door policy in all the sectors except those related to defense and very important basic needs. This has paved the way towards industrialization. As a result private investment in hydro power, communication and other sectors is increasing.



Emerging Business Environment in Nepal

Development of private sectors:

Economic reform programs have shown symptoms of economic growth, mainly in the private sectors. Private sectors have gone ahead in the areas of hydro power, airlines, communication, road, water supply, food and drinking water, banking and financing companies, hotel, small and cottage industries, services industries, etc.



Emerging Business Environment in Nepal

Appearance of multinational companies:

Nepal has adopted the policy of open market and economic liberalization. It has forwarded special policy to attract foreign investment. So, the foreign investor have entered Nepal through multinational companies. Now hotels, banks, hydro power projects, nursing homes, finance companies, etc. are being run in joint venture with the members of WTO. Globalization has begun to influence Nepal's business environment in a positive direction.



Thank you!