Debuted in 1988, Essentials of Business Environment has travelled a long way and grown in all directions size, volume, visuals, production, content, coverage, depth, style, contemporaneity and make-you-think views.

The 12th edition has a new feature. At the end of each chapter, there is a section on the impact of the chapter contents on macro business environment. The appendages carry interesting and revealing observations.

The present edition has three new chapters Human Development, Financial System and Fiscal System. All other features and structure of the book remain untouched except that new cases, boxes, figures and tables have been added. Several chapters have been recast and data updated.

It is my pleasure to thank Dr. G. Sudarsana Reddy, Associate Professor of Commerce, Tumkur University, Kamataka, for his ever helping nature.

My grateful thanks to Mr. T.V.S. Raman, Manager - Times Response, Times of India, for helping me at critical times. When starved of an article/book, he will be the man who can be depended upon.

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I would like to thank Mr. Anuj Pandey, Mr. Niraj Pandey, Mr. Vijay Pandey, Ms. Nimisha Kadam and all staff of Himalaya Publishing House for bringing out this revised edition.

A big thank you my esteemed readers for your sustained patronage to the book.

K. Aswathappa

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Preface to the First Edition

Business, it is said, is a product of environment. The nature of business; location of a business enterprise; the product to be manufactured or service to be rendered by the business unit; size and volume of operations of the firm; the price to be fixed and other related factors relating to the business unit are determined by the environment within which the business operates. Though business is the creation of its environment, the influence of the former on its external forces is equally significant. If certain industries, for example, have been delicensed or if investment limit of business houses has been raised for the purpose of categorising them as large industrial undertakings, it is the result of business lobbying rather than sudden self-realisation on the part of politicians or government agencies. Similarly, technological environment compels business to adopt new ideas and new methods of production. Business in turn invests crores of rupees on research and development for new innovations. Thus, there is symbiotic relationship between the business and its environment.

The environment of the business may be divided into political, economic, technological, Socio-cultural and natural factors. How each of these factors influences and is influenced by the business is a fascinating subject, a knowledge of which is essential for business managers, politicians, government officials, academicians and the general public. Universities and management institutes all over the country have done a right thing in including the subject business environment in their curricula for M.Com., MBA and diploma courses in management. It is the M.Com. and MBA degree holders who would occupy important positions in business houses tomorrow. A knowledge of the business environment will enable them to place every issue related to business in its proper perspective and make a sound decision to solve the problem.

Unfortunately, not many books are being written on the subject business environment and those that are available confine themselves to the discussion of the influence of political, economic and social factors on business. Technological, cultural and physical factors, though equally significant, are ignored for reasons not known.

Essentials of Business Environment is a comprehensive book which covers the discussion of all the environmental factors in greater detail. As will be seen in the subsequent pages, the book is divided into five sections discussing political, legal, economic, technological, socio-cultural, and natural factors in that order. Of particular significance is the discussion on socio-cultural environment wherein the influence of Indian cultural ethos on business is commented upon tracing each aspect from the very early days to the contemporary period. The discussion throughout the book is simple and logical, punctuated with illustrations and anecdotes drawn from contemporary business houses.

In preparing the text for this book, I have consulted several books and journals which have been acknowledged at appropriate places. I have also received invaluable suggestions from many luminaries. Though it is difficult to thank all of them individually, it is my pleasure to express grateful thanks to Dr. S.V.S. Rao and Prof. Venkatakrishnappa, the former for offering comments on cultural environment and the latter on important legislations. I also thank Prof. O.R. Krishnaswamy, Prof. K. Hanumanthappa and Dr. P.N. Reddy whose elderly advice has been of immense use to me.

I thank Mr. D.P. Pandey of Himalaya Publishing House for having published this book.

I request the esteemed readers to offer their criticisms and suggestions for further improvement of this book.

K. Aswathappa
PART - A

CHAPTER 1  BUSINESS AND ITS ENVIRONMENT — AN INTRODUCTION  3 – 28

Nature of Business  
Scope of Business  
Characteristics of Contemporary Business  
Business Objectives  
Critics of Business  
What is Environment?  
Questions  
References  
Case  

CHAPTER 2  MEANING AND RATIONALE FOR GLOBALISATION  29 – 64

Nature of Globalisation  
Drivers of Globalisation  
Ripple Effects of Globalisation  
Players in International Business  
India’s Presence  
Goal of MNCs  
Challenges of International Business  
Fundamental Goals of Host Governments  
Criticisms of MNCs  
In Defense of MNCs  
How can MNCs Become Acceptable?  
Challenges of International Business  
Globalisation and Business Environment  
Questions  
References  
Case  

CHAPTER 3  STRATEGIES FOR GOING GLOBAL  65 – 80

Strategies in Globalisation  
Globalisation Strategies and Business Environment  
Questions  
References  
Case  

CHAPTER 4  FOREIGN DIRECT INVESTMENT  81 – 100

Nature of FDI  
Why FDI?  
Factors Influencing FDI  
Extent of FDI  
India’s Share  
Attracting Foreign Capital  
Destination India  
FDI and Business Environment  
Questions
CHAPTER 5  INDIA, WTO AND THE TRADING BLOCKS

Principles of WTO
Objectives of WTO
Functions
Differences Between GATT and the WTO
The WTO Structure
The Final Act
GATS
Common Misunderstanding about the WTO
Implications for India
Review of Performance
Trading Blocks
Impact of Trading Blocks
Levels of Integration
WTO and Business Environment
Questions
References
Case

PART - B

CHAPTER 6  TECHNOLOGICAL ENVIRONMENT

Features of Technology
Impact of Technology
Management of Technology
Status of Technology in India
Technology and Business Environment
Questions
References
Case

PART - C

CHAPTER 7  POLITICAL INSTITUTIONS

Political Risk
Political Institution and Business Environment
Questions
References
Case

CHAPTER 8  THE CONSTITUTION OF INDIA

The Preamble
The Fundamental Rights
Directive Principles of State Policy
Time for Change
Constitution and Business Environment
Questions
References
Case

CHAPTER 9  RATIONALE AND EXTENT OF STATE INTERVENTION

Reasons for Intervention
Types of Intervention
(vii)
# CHAPTER 10 END OF GOVERNMENT IN BUSINESS?

214 – 222

Why the Government should Continue its Interventionist Policy?
What Should be the Form of State Intervention?
Questions
References
Case

# CHAPTER 11 ECONOMIC ENVIRONMENT

225 – 252

Nature of Economic Environment
Economic Factors
Claims and Counter Claims
Agenda for the Future
Economic Environment and Business
Questions
References
Case

# CHAPTER 12 INDUSTRIAL POLICY

253 – 263

Rationale
Industrial Policy Resolution, 1948
Industrial Policy, 1956
Industrial Policy, 1991
National Manufacturing Policy (NMP)
Industrial Policy and Business Environment
Questions
References

# CHAPTER 13 INDUSTRIAL LICENSING

264 – 270

Objectives of Licensing
Legislative Framework for Licensing
Criticisms of Licensing
Licensing and Business Environment
Questions
References

# CHAPTER 14 COMPETITION LAW AND FOREIGN EXCHANGE MANAGEMENT ACT

271 – 274

Competition Law
Competition Act 2002
Foreign Exchange Management
Twin Laws and Business Environment
Questions

# CHAPTER 15 COMPANIES ACT, 1956

275 – 286

Evolution of the Company
Meaning and Definition
Classification of Companies
CHAPTER 16 PUBLIC SECTOR ENTERPRISES
Definition
Objectives
Evolution of the Public Sector
Rationale for State-owned Enterprises
Growth and Role
Performance
What Needs to be Done?
Challenges of PSUs
Ownership Pattern of PSUs
1991 Industrial Policy and Public Sector
CPSUs and Business Environment
Questions
References
Case

CHAPTER 17 PRIVATISATION
History
Nature and Objectives
Privatisation Routes
Record to Date
Disinvestment in India
Arguments Against Privatisation
Organisation for Disinvestment
Present Stand of the Government
National Investment Fund (NIF)
Public-Private Partnership
Privatisation and Business Environment
Questions
References
Case

CHAPTER 18 MICRO, SMALL AND MEDIUM ENTERPRISES
Meaning
Growth of MSEs
Significance of Small-scale Industries
The Case for Small-scale Industries
Facilities
Problems and Remedials
Small Sector Industrial Policy
Recommendations of the Abid Hussain Committee
Yet another Committee’s Recommendations
Small Units and Business Environment
Questions
References
Case
Dealings in Share Markets
Organisation of Stock Markets
Regulation
Institutions Promoting Stock Exchanges
Market Participants
Positive Features
Negative Features
Towards Effective Stock Exchanges
Stock Exchanges and Business Environment
Questions
Case

CHAPTER 25 FINANCIAL SYSTEM  457 – 478

Indian Financial System
Reserve Bank of India
Commercial Banks
Monetary Policy
Money Market
Financial System and Business Environment
Questions
References
Case

CHAPTER 26 FISCAL SYSTEM  479 – 487

Nature and Objectives
Fiscal Policy Instruments
Fiscal Responsibility and Budget Management Act 2003
Fiscal System and Business Environment
Questions
Case

CHAPTER 27 AGRICULTURE  488 – 502

Role of Agriculture
Extent of Farm Output
Problems
Agenda for Action
Agricultural Policy
National Commission on Farmers
Agriculture and Business Environment
Questions
References
Case

CHAPTER 28 BALANCED REGIONAL DEVELOPMENT  503 – 514

Criteria for Backwardness
Causes for Backwardness and Regional Imbalances
Measures to Remove Regional Imbalances
Failure of Regional Planning
Regional Development and Business Environment
Questions
References

CHAPTER 29 HUMAN DEVELOPMENT  515 – 528

Human Development
Human Development and Business Environment
Questions
<table>
<thead>
<tr>
<th>CHAPTER 30</th>
<th>EXTERNAL SECTOR</th>
<th>529 – 550</th>
</tr>
</thead>
<tbody>
<tr>
<td>References</td>
<td>Case</td>
<td></td>
</tr>
<tr>
<td><strong>CHAPTER 30 EXTERNAL SECTOR</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign Trade</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade policy 2009-2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade-in-Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance of Payments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special Economic Zones</td>
<td></td>
<td></td>
</tr>
<tr>
<td>External Sector and Business Environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Questions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>References</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHAPTER 31</th>
<th>NEW ECONOMIC POLICY</th>
<th>551 – 560</th>
</tr>
</thead>
<tbody>
<tr>
<td>References</td>
<td>Case</td>
<td></td>
</tr>
<tr>
<td><strong>CHAPTER 31 NEW ECONOMIC POLICY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Background to the New Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The New Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Second Generation Reforms</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decade after Reforms</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NEP and Business Environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Questions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>References</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHAPTER 32</th>
<th>CULTURAL ENVIRONMENT</th>
<th>563 – 590</th>
</tr>
</thead>
<tbody>
<tr>
<td>References</td>
<td>Case</td>
<td></td>
</tr>
<tr>
<td><strong>CHAPTER 32 CULTURAL ENVIRONMENT</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nature of Culture</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cultural Dimensions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impact of Culture on Business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Culture and Business Environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Questions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>References</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Case</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHAPTER 33</th>
<th>SOCIAL RESPONSIBILITY OF BUSINESS</th>
<th>591 – 622</th>
</tr>
</thead>
<tbody>
<tr>
<td>References</td>
<td>Case</td>
<td></td>
</tr>
<tr>
<td><strong>CHAPTER 33 SOCIAL RESPONSIBILITY OF BUSINESS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Responsibility Models</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forces Pressuring Social Responsiveness</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The CSR Debate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prominence of Social Responsibility</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Responsibility Implementation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principles of CSR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limits of Social Responsibility</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common Characteristics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Evolving Idea of Social Responsibility</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indian Scenario</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Initiate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSR and Business Environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Questions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>References</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Case</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CHAPTER 34</th>
<th>BUSINESS AND SOCIETY</th>
<th>623 – 656</th>
</tr>
</thead>
<tbody>
<tr>
<td>References</td>
<td>Case</td>
<td></td>
</tr>
<tr>
<td><strong>CHAPTER 34 BUSINESS AND SOCIETY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ecology and Business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Women and Business Opportunities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child Labour</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumerism</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural Development</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(xii)
List of Boxes

1.1 Failed Objectives and Foregotten Mission 10
1.2 Institute of Excellence 11
1.3 Story of Xerox 13
2.1 Irrelevance of Nation-States 30
2.2 “Future of Management is India” 38
2.3 What’s in the Name? 43
2.4 Water Thief 49
2.5 Many Looms in Bangalore have Fallen Silent 50
2.6 Business Problems Because of Cultural Differences 51
2.7 Think Local and Act Local 52
2.8 The Nano Effect 56
4.1 Incorrigible 91
4.2 Sector Specific Limits of Foreign Investment in India 92
4.3 Host Country’s Determinants of FDI 94
4.4 Justice for All 95
4.5 India’s Special Strengths & Weaknesses 97
5.1 From GATT to WTO 107
5.2 Textiles and Clothing — Integration Stages 108
5.3 India Wins WTO Case Against EU 111
5.4 Labour Pains 115
5.5 Balance Sheet for India 116
5.6 Flying Cows First Class 119
5.7 India’s Regional Arrangements: Recent Developments 122
6.1 Science and Technology — The Semantics 134
6.2 Innovation Time — From Idea to Successful Product 136
6.3 Where Technology Failed 138
6.4 Thriving on Obsolescence 148
7.1 Merits of Democracy 168
7.2 Saga of Mayhem, Killings and Extortions 174
7.3 All Pay and No Work at Mysore Tobacco 179
7.4 Regressive Labour Laws 180
7.5 Supreme Orders 181
9.1 Government Intervention in the US 203
9.2 Some Problems of Government Intervention in Developing Countries 209
10.1 A Public Responsibility 216
10.2 Myths Exploded 218
10.3 Target Areas for Government Intervention 219
10.4 8th Plan on the Role of the Government 220
11.1 Growth and Workers 238
15.1 Supreme Court on Company’s Personality 277
16.1 Top Ten Public Sector Enterprises 291
16.2 All Tied Up in Knots
16.3 Costs of Delay
16.4 How Not to Organise an Enterprise?
16.5 List of MoU Enterprises
17.1 Privatisation in China
17.2 Seven Sins of Privatisation
18.1 Milestones in Institutional Credit Facility
18.2 Naik’s Committee Recommendations on SME Financing
18.3 Laws and Compliances for MSMEs
18.4 Skills Needed to Run Small Businesses Successfully
18.5 Small Sector: The SWOT
18.6 The Nuts and Bolts of Improving Business Climate for Small Businesses
18.7 Salient Features of New Policy
19.1 Union Rivalry and Violence
19.2 The Confusion in Labour Laws
19.3 Guidelines for Negotiations
20.1 Interesting Findings on Sickness
21.1 Strengths, Weaknesses and Remedies (Electricity)
21.2 Tracks in Time
21.3 Facilities in Railways 86 Years Ago
21.4 Off Track: The Railway Accident Roster
21.5 Strengths, Weaknesses and Remedies (Railways)
21.6 Strengths, Weaknesses and Remedies (Road Transport)
21.7 Strengths, Weaknesses and Remedies (Shipping)
21.8 Milestones in India’s Telecom Sector
21.9 Strengths, Weaknesses and Remedies (Telecommunications)
24.1 Insider Trading — Heavy Toll
24.2 Steps to Improve Efficiency of Stock Exchanges
25.1 Indicators of Independence
27.1 Agriculture and Society
27.2 Monsanto Told to Compensate Farmers
29.1 Measures taken and Proposed by the Government to Control Price Rise
29.2 Indictments
30.1 Growth Locomotive but not Recognised
30.2 Electronic Commerce
30.3 SWOT Analysis of Service Exports
31.1 Shocks to the Economy after the Mid-1990s
31.2 India Vision 2020
32.1 Etiquette and Protocol
32.2 Cultural Clashes
32.3 Cultural Manifestation
32.4 Strengthening Family Ties
32.5 The New Wars of Religion
32.6 A Tainted Tradition
32.7 It is all in the Stars
32.8 Superwoman is shackled
33.1 A Way of Thought
33.2 HUL's Sustainability Scorecard

34.1 Degraded Environment and Alienated Communities

34.2 Ballad for Ecology

34.3 Sardar Sarovar Project — Benefits: Major and Secondary

34.4 Victims of Industrial Pollution

34.5 The World's Work Pollution

34.6 Affluence from Effluents

34.7 The Rio Declaration

34.8 Tortured Childhood

34.9 Children and the Factory System

34.10 Consumer Groups in India

34.11 Biju Patnaik Reveals A 30-year-old Secret

34.12 Narmada Dam Oustees' Condition Pathetic

36.1 A World of Greased Palms

36.2 Tata's Code of Conduct

36.3 Ethical Conduct

37.1 Good Governance

37.2 Suggested List of Items to be Included in the Report on Corporate Governance in the Annual Reports of Companies

37.3 Empowering Nominee Directors

37.4 Corporate Governance

37.5 Regulation Framework

38.1 Saga of Fire and Ice on an Isolated Island

38.2 As Wet as Cherrapunjee
List of Figures

1.1 Characteristics of Indian Business ................................................. 5
1.2 Business Objectives ........................................................................ 11
1.3 Business Critics ............................................................................... 15
1.4 Environment of Business ............................................................... 18
1.5 Linkage Between Environmental Scanning and Strategic Management 19
1.6 Linkages among the Stages ............................................................. 25
2.1 Assessing Corporate Globality ......................................................... 31
2.2 Five Currents of Globalisation ......................................................... 35
2.3 Effects of Globalisation ................................................................... 37
2.4 Criticism of MNCs ........................................................................... 47
2.5 Seven Spheres for Managing Diversity ............................................ 59
3.1 Globalisation Strategies ................................................................. 66
3.2 Indicators of Market Potential ......................................................... 67
3.3 Entry Strategies ............................................................................... 68
3.4 The Contrast .................................................................................... 73
3.5 Factors Affecting Organisational Structure .................................... 74
3.6 International Division Structure ..................................................... 74
3.7 Worldwide Functional Organisation ............................................... 75
3.8 Geographic Area Organisation ........................................................ 75
3.9 Product Organisation ....................................................................... 76
3.10 Mixed Organisation ....................................................................... 76
3.11 Matrix Organisation ....................................................................... 77
4.1 Factors Impacting the FDI Decision ................................................ 85
4.2 FDI Inflows into India and China .................................................... 89
4.3 An Obstacle Race ............................................................................ 91
4.4 Star Status of Countries .................................................................. 96
5.1 Principles of WTO ......................................................................... 102
5.2 Structures of World Trade Organisation ....................................... 106
5.3 Impact of Regional Groupings ......................................................... 123
5.4 Levels of Integration between Countries ....................................... 125
6.1 Black Box ....................................................................................... 135
6.2 Impact of Technology ..................................................................... 136
6.3 Spinning out Technology ............................................................... 139
6.4 Phases in Development of Technology ......................................... 140
6.5 Technological Complexity and Organisational Structure .......... 147
6.6 Companies Filing Patent Applications in 2007-08 ....................... 150
6.7 Three Factors Impeding Technological Growth ............................ 153
6.8 Sobering Thought ......................................................................... 155
7.1 The Rise of Democratic Regimes ................................................... 170
7.2 Ruling the Noost ............................................................................ 171
7.3 Business Obligation to Government and of Government to Business 172
7.4 Types of Political Risks ................................................................ 183
7.5 Managing Risks ............................................................................ 185
9.1 Classification of Controls ............................................................... 206
9.2 Various Controls ........................................................................... 207
9.3 Procedure for Foreign Collaboration ............................................ 208
10.1 Decreasing Role of Governments Presence in Business ............ 221
11.1 Industrial Growth Through Plans (Annual %) .............................. 234
11.2 Green Growth ............................................................................. 240
11.3 Branching Out ............................................................................. 242
11.4 Exports (Goods & Services) to GDP Ratio .................................. 250
11.5 The Explosive Growth in Phone Lines (Million Lines) ............... 252
12.1 Categorisation of Industries — 1956 Policy ................................. 256
13.1 Provisions of I(D&R) Act ............................................................. 266
15.1 Private Company Compared with Public Company ................... 278
16.1 Dividend Payouts by the Top 10 during 2012-13 ....................... 297
17.1 International Comparison of Disinvestments 1990-98 ($ million) .... 316
18.1 No. of SMEs (in millions) ............................................................. 332
18.2 No. of employees (in millions) ...................................................... 333
18.3 No. of Micro, small and Medium Enterprises ............................ 333
18.4 Facilities for SMEs ..................................................................... 337
18.5 Challenges an Entrepreneur Faces .............................................. 343
18.6 Factory Problems ....................................................................... 365
19.1 Expression of Employee Disatisfaction ....................................... 372
19.3 Disputes Settlement Mechanisms ................................................. 372
19.4 The Collective Bargaining Process .............................................. 374
19.5 Grievance Procedure .................................................................. 381
21.2 Sources of Energy ....................................................................... 410
22.2 Railways: Inadequate Network Capacity ..................................... 414
22.3 Indian Railways: The Safety Report ........................................... 418
22.4 Road Lengths ............................................................................. 420
25.1 On the Roof of the World ............................................................ 463
25.2 Monetary Policy Interventions ..................................................... 468
25.3 India’s Gold Rush ........................................................................ 471
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>28.1</td>
<td>Many Poorer States Growing Rapidly</td>
<td>506</td>
</tr>
<tr>
<td>29.1</td>
<td>Trends in Poverty in India</td>
<td>517</td>
</tr>
<tr>
<td>30.1</td>
<td>Growth in Exports</td>
<td>534</td>
</tr>
<tr>
<td>31.1</td>
<td>Modelling Economic Managers in India</td>
<td>553</td>
</tr>
<tr>
<td>32.1</td>
<td>Levels of Culture</td>
<td>564</td>
</tr>
<tr>
<td>32.2</td>
<td>Culture and Business</td>
<td>569</td>
</tr>
<tr>
<td>33.1</td>
<td>Ackerman's Three Stages of Social Responsibility</td>
<td>594</td>
</tr>
<tr>
<td>33.2</td>
<td>A Four-stage Model of Corporate Social Responsibility</td>
<td>595</td>
</tr>
<tr>
<td>33.3</td>
<td>Socially Responsive Strategies</td>
<td>595</td>
</tr>
<tr>
<td>33.4</td>
<td>Pressures Leading to Social Responsibility</td>
<td>597</td>
</tr>
<tr>
<td>33.5</td>
<td>Four Elements of Competitive Strength</td>
<td>598</td>
</tr>
<tr>
<td>33.6</td>
<td>The Pros and Cons of CSR</td>
<td>599</td>
</tr>
<tr>
<td>33.7</td>
<td>The Triple Bottom Line</td>
<td>605</td>
</tr>
<tr>
<td>33.8</td>
<td>Corporate Accountability</td>
<td>606</td>
</tr>
<tr>
<td>33.9</td>
<td>The Stakeholder Model</td>
<td>608</td>
</tr>
<tr>
<td>34.1</td>
<td>Dimensions of Business and Society</td>
<td>624</td>
</tr>
<tr>
<td>34.2</td>
<td>Correlation Between Chemicals and GDP</td>
<td>636</td>
</tr>
<tr>
<td>34.3</td>
<td>Labour Force Participation Rate</td>
<td>641</td>
</tr>
<tr>
<td>34.4</td>
<td>Woman Presence</td>
<td>642</td>
</tr>
<tr>
<td>34.5</td>
<td>Reasons for Graft</td>
<td>668</td>
</tr>
<tr>
<td>34.6</td>
<td>Ways of Monetary Ethics</td>
<td>671</td>
</tr>
<tr>
<td>34.7</td>
<td>Components of Ethical Climate</td>
<td>672</td>
</tr>
<tr>
<td>34.8</td>
<td>Framework for Social Accounts</td>
<td>680</td>
</tr>
<tr>
<td>34.9</td>
<td>Measures to Fight Graft</td>
<td>680</td>
</tr>
<tr>
<td>34.10</td>
<td>The Corporate Crimes</td>
<td>682</td>
</tr>
<tr>
<td>34.11</td>
<td>Mechanisms for Corporate Governance</td>
<td>693</td>
</tr>
<tr>
<td>34.12</td>
<td>Comparison of Corporate Governance Regimes Globally</td>
<td>702</td>
</tr>
<tr>
<td>34.13</td>
<td>No. of Environmental Clearances Given</td>
<td>714</td>
</tr>
</tbody>
</table>
List of Tables

1.1 Model of Economic Management in India 6
1.2 Commodity Czars 7
1.3 Environmental Factors and Their Features 18
1.4 Examples of Industry Survival and Success Factors 20
1.5 Strategies in Response to Environment Changes (Data relevant during early nineties) 21
2.1 Percentage Regional Distribution of IT Sales for Selected Companies in 1993 31
2.2 Average Tariff Rates on Manufactured Products 34
2.3 Employment in Manufacturing 38
2.4 Number of US Jobs Moving Offshore 38
2.5 The World's Largest Corporations 43
2.6 MNC's Spread 44
2.7 Extent of Overseas Presence 45
2.8 Seven Key Disputed Issues about the Role and Impact of Multinational Corporations in Developing Countries 48
3.1 Managing Domestic and International Businesses 72
4.1 Market Size/Growth and Investment Priorities 86
4.2 World FDI Inflows 1970-2009 88
4.3 World FDI Outflows 1970-2009 88
4.4 India vs. South Asia 91
4.3 FDI Flows, by Region and Selected Countries, 1993-2004 (Billions of dollars and per cent) 87
4.4 FDI Inflow into India 89
5.1 Users of Anti-Dumping Measures 109
5.2 Number of Dispute Settlement Cases, 1995 through 2000 110
5.3 Participation in WTO Dispute Settlement Cases 111
5.4 Doubts and Clarifications 113
5.5 International Comparison of Select Drugs Prices 117
5.6 Major Regional Trade Associations 121
6.1 Major Innovations 135
6.2 National Spending as Percentage on GNP 141
6.3 Spending on R&D by Select Firms (2004) 141
6.4 Spending on Product and Process Innovations 142
6.5 First University Degrees and Share of S&E Degrees in Selected Countries, 1975-2004 146
6.6 New Technologies Used on the Job 154
6.7 Unethical Activities Associated with New Technologies 154
7.1 Political and Civil Liberties around the World 167
7.2 A Sampling of Government Types 167
7.3 Interactional Attacks by Region (1995-2000) 183
7.5 Political Risks — Scores 184
9.1 Government Intervention in Asian Region 203
9.2 History of US Bailouts 205
11.1 Fattest Pay Packages (Fiscal 2012) 228
11.2 Capitalism, Socialism and Communism Compared 229
11.3 Plan Outlays 232
11.4 Pattern of Resource Allocation in India's Plans 232
11.5 Industrial Production Growth Rates (%) 234
26.1 Tax Revenue Sources of the Central Government 481
26.2 Expenditure to GDP ratios 482
26.3 Changing Expenditure Mix 483
26.4 Government Deficit 483
26.5 Public Debt 404
26.6 Responses of Real GDP to Discretionary Fiscal Policy Changes 487
27.1 Share of Agriculture in GDP 489
27.2 Production of Foodgrains 491
27.3 A View of Indian Agricultural Productivity 492
27.4 Production of Rice, Paddy 492
27.5 Land Productivity in Developed and Developing Countries, 2000 492
27.6 Productivity in Agriculture 493
27.7 Wastemates 494
28.1 Status of States in Economic Development 505
28.2 Mineral Reserves in Odisha 506
28.3 Transfers to States 509
28.4 Per Capita Transfers 509
28.5 State-wise Dispersal of Backward Districts 510
28.6 Share of Backward Areas in Total Licences Issued 511
29.1 Employment in Organised and Unorganised Sector 517
29.2 Average Annual Inflation (WP 1%) 520
30.1 Trends in Growth in Trade Volumes 531
30.2 India’s Foreign Trade Over the Years 532
30.3 Select Exports Ratios 535
30.4 Global Players in Trade-in-Services 543
30.5 Key Indicators of BoP 546
30.6 SEZs So Far 547
30.7 Exports from SEZs 547
30.8 Denotified SEZs 548
31.1 Trends in Wholesale Price Index and Consumer Price Index 552
32.1 Major Concepts in the Comparative Analysis of US and Japanese Management 570
32.2 Major Concepts in the Comparative Analysis of Japan and India 570
32.3 Language Distribution of the World 573
32.4 Major World Religions 581
33.1 Firsts of Tatas Towards Employees 607
33.2 Spending by Indian Corporate (Fiscal 2009) 610
33.3 Common Characteristics of Socially Responsive Firms 610
33.4 An Illustrative List of the Philanthropic Activities of Some Companies/Groups 614
33.6 Progress So Far 621
34.1 Forest Land Diverted for Development Projects 626
34.2 How Much They Pollute? 630
34.3 Children Out of Schools 646
34.4 Percentage of Physically Disabled 652
35.1 Activities Covered by Social Audit 659
36.1 Fraud Matrix 667
36.2 Major Global Auto Recalls 673
36.3 Whistle Blowing in Action 676
36.4 Means to Promote Ethical Conduct 680
36.5 Popularity of Whistle Blowing 681
37.1 Pattern of Equity Ownership in Select Companies 689
37.2 Fattest Pay (Fiscal (2002) 692
37.3 Roll of Honour 700
PART A

Chapter 1: Business and Its Environment — An Introduction
Chapter 2: Meaning and Rationale for Globalisation
Chapter 3: Strategies for Going Global
Chapter 4: Foreign Direct Investment
Chapter 5: India, WTO and the Trading Blocks
BUSINESS AND ITS ENVIRONMENT — AN INTRODUCTION

CHAPTER OUTLINE

What is Business?
- Scope of Business
- Characteristics of Today’s Business
- Business Goals
- Critics of Business

What is Environment?
- Knowing the Environment
- Objectives and Uses of Study
- Process of Environmental Analysis
- Limitations of Environmental Analysis
- Organisation for Analysis

LEARNING OBJECTIVES

After reading this Chapter, you should be able to:
1. Understand the nature and scope of business
2. Shortlist characteristics of contemporary business
3. Define vision, mission and goals of business
4. Describe the criticisms against business
5. Understand the nature of environment
6. Understand the process of environmental analysis
7. Suggest a suitable organisational arrangement for scanning the environment.
The Indian economy, which peaked three years back, began to slide downwards and is now passing through a lean period. Reasons are both external as well as internal. The financial crisis and the poor shape of economies of the US, Europe and Japan have impacted the Indian economy adversely. Internally, mounting current account deficit, depreciating rupee value and slowdown of industrial sector have hit the economy badly. Obviously, business, in general, is passing through a tough time. Managing a business during downtime is more challenging than when it is passing through boom period. New challenges necessitate new strategies. Before evolving new strategies, knowledge about business environment is essential. A book on business environment reflecting contemporary challenges is highly useful.

**NATURE OF BUSINESS**

Business may be understood as the organised efforts of enterprises to supply consumers with goods and services for a profit.

Businesses vary in size, as measured by the number of employees or by sales volume. Large organisations such as Steel Authority of India Limited (SAIL) and Tata Steel count their employees in the hundred thousands and their sales revenues in thousands of crores. But most businesses in our country are small units—indeed, independently owned and managed and employing fewer than twenty employees each.

Whether a business unit has one or two people working at home, 10 operating in a retail store, 1000 employed in a factory, or 100,000 operating in multiple units spread across the country, all businesses share the same purpose: to earn profits.

The purpose of business goes beyond earning profit. It is an important institution in society. Be it for the supply of goods and services; creation of job opportunities; offer of better quality of life; or contributing to the economic growth of the country and putting it on the global map; the role of business is crucial. Society cannot do without business. It needs no emphasis that business needs society as much.

**SCOPE OF BUSINESS**

The scope of business is indeed vast. Let us assume that you have decided to buy an automobile. Behind your purchase, there is the supplier of raw materials; there is the manufacturer who converts these raw materials and other inputs into usable vehicles; there is the dealer who makes the vehicles available at places convenient to you; there is the transport agent who assists in moving materials to the manufacturing plant and vehicles from plant to the market; there is the banker to finance various activities; there is the advertising agency which tells you about the vehicles, where and how they can be procured; there is the insurance agent which assumes risks on your behalf; and a host of other activities. Not only an automobile, even a simple item such as a ball pen necessitates a long chain of activities so as to make your purchase possible.

The multitudinous activities involved in bringing raw materials to the factory and the end product from there to the market constitute a business. In other words, business includes all activities connected with production, trade, banking, insurance, finance, agency, advertising, packaging and numerous other related activities. Business also includes all efforts to comply with legal restrictions and government requirements and discharging obligations to consumers, employees, owners and to other interest groups which have stakes in business directly or indirectly.

What is important and what needs emphasis in the term ‘business’ is that all the above activities are being organised and carried on with an important purpose, viz., earn profit by supplying goods and services to consumers to satisfy their felt needs. Thus, people occupy a central place around whom, by whom and for whom business is run. Business is people.

No wonder the principles and practices of managing a business are finding their place in non-business organisations too. Take an NGO (non-profit organisation), a hospital, or a B-School, you find designations of individuals like Vice-President, executive, and corporate and business practices like TQM and re-engineering being replicated. These and similar other organisations do not claim to work for profit but what all they do, do reflect business functions. They are justified in doing so.
among them is so severe, that they need to professionalise their practices if they were to survive and prosper.

CHARACTERISTICS OF CONTEMPORARY BUSINESS

When we describe the characteristics of today's business, we keep in our mind the Indian business. The Indian business has some interesting and unique features such as — transition, bigger role for government, competition, dominance of small businesses, management as a science, opportunities, globalisation, technology, and lack of trust (See Fig. 1.1).

A typical business person is sandwiched between the compulsions of the new business environment and of the old practices of doing business.

Business in Transition: For a long time, business in India was conducted in sheltered markets covering up inefficiencies, low productivity and high cost. Then came 1990s which lifted all protectionist measures. This followed by increased globalisation, changed the scenario altogether. The Indian business leaders find totally a new environment characterised by competition, both from within and from foreign businesses. Those who are competent are able to survive and those who fail are perishing. A typical business leader finds himself or herself sandwiched between the compulsions of the new business environment and of the old practices of doing business. But there is no escape for him or her — he or she should shift himself or herself from the left of the following continuum and move to the other end as shown in Table 1.1.

Considering what is happening in the Indian business scenario, one can conclude that enterprises have indeed shifted to the right of the continuum and are even going beyond.

Businesses have made huge profits and by one estimate, 60 per cent of India's 200 leading companies are looking to spend their new found wealth on foreign acquisitions and investments.

Indian companies are well poised to acquire firms at least for two developments. First, many Indian companies are part of a group of companies like Aditya Birlas or Tatas. They can leverage group assets to complete deals that would be difficult for any individual company. One or more of the group companies can lend or take equity position in the company that is attempting to make the acquisition, or the entire group's assets can be offered to raise debts.

Second, Indian companies have historically had very high debt-equity ratios. This implies that Indian entrepreneurs can live with debt levels that many Western companies would find uncomfortable. Earlier, companies in India borrowed from nationalised banks whose mandate was to support country's economic growth. Thus, they were not aggressive with respect to interest rates, debt collection, or valuation and revaluation of collateral. Now, they are tapping global financial markets to fund their deals, and these lenders are more exacting. High leverage increases risk. Nevertheless, the historical easy attitude towards debt facilitated these acquisitions.
Pressure of Competition: As stated above, Indian businesses are competing among themselves and are exposed to rivalry from foreign firms. Competition though unwelcome to managers, is a boon to customers. Look at the experience of buyers and users in India. Recollect the scenario about 20 years back. Businesses enjoyed virtual monopoly and this advantage they used to squeeze customers. Scarcities, high prices and low quality were the order of the day. One had to wait for 6 to 7 years to get a phone connection, 3 to 4 years to have a cooking gas connection, 8 to 10 years to get a new two-wheeler released and the list goes on.

The scenario is a contrast today. The customer has several options. He or she can pick and choose. ‘Customer is the king’ was a mere slogan earlier. Now it is being practised. For the first time, the officer at the counter of an office of LIC greets you with a smiling face, the clerk in a bank addresses you politely as Sir or Madam, and for your surprise the cashier at the counter of a water supply board greets you politely and for your shock and disbelief, the conductor in a local transport bus is now the embodiment of politeness and smiles.

Competition benefits the consumer as has been proved in our country. Government of India should have realised this fact long before and, instead of enacting numerous consumer legislations in the name of protecting consumer interests, could have allowed competition to play its free role.

Not that competition benefits only consumers. It benefits even the rival firms. Competing firms benefit from having strong domestic and foreign rivals.

Competition, for example,
— defines new ways of doing business,
— helps build new capabilities,
— builds new customer satisfaction standards, and
— makes business leaders become proactive.

Immense Opportunities: Though Indian business faces stiff competition, it also has plenty of opportunities which can be exploited to one’s advantage. BPO, Call Centres, IT, ITEs, wealth management, risk management and private banking are the new names that are doing rounds in business.

But the real opportunities lie in the traditional sector, viz., industry. Globally competitive manufacturing can be done in India. In diverse sectors — pharmaceuticals, chemicals, textiles, metals, refining, cement,
auto and ancillaries, India has factories doing well and even exporting large portions of their output. Many MNCs look at India as export-base. Suzuki and Huyndai perceive India as a car club. ABB plans to make India a global sourcing base for some of its products.

India has potential to emerge as the second global manufacturing base after China. In its report ‘Made in India’, McKinsey and Co. has stated that the second and much bigger wave of manufacturing outsourcing is yet to come. The first wave was $460 billion and consisted of low technology products like toys and garments. The second wave would reach $1.6 trillion and will include high technology sectors like automotives, engineering and chemicals. When the second wave comes, the beneficiaries will be India or China, or both.

Some examples of companies seizing opportunities are worth recollecting. Toyota Kirloskar’s Bidadi’s plant, near Bangalore, has the highest yield of steel plates in the Asian operations of Toyota. This means that the Indian engineers and their innovations are able to make more money out of steel than elsewhere in the vast Toyota world. Ford’s Sriperambadur plant, near Chennai, is at the top among all Ford’s plants worldwide, in terms of production efficiency. The plant now exports engines and panels to South Africa among others. Bajaj Auto’s new plant at Chakan is world class. Tata Motor’s Nano is perhaps the cheapest new car in world in terms of developmental expenditure. Tata Steel has emerged as one of the lowest-cost manufacturers of steel in the world. Jindal Stainless recently bagged an order to supply coin blanks to Monnaire De Pari — the French national mint. This means that some 7.5 bn Euro coins will use Indian stainless steel.

Commodity business is another area where Indian companies are in a stronger position. L.N. Mittal in Steel, Ambanis in Polyester, K.M. Birla in Viscose Fibre, and Bharat Forge in forgings are only some names that come to one’s mind while we talk about the commodities stage (See Table 1.2).

<table>
<thead>
<tr>
<th>Company</th>
<th>Product</th>
<th>Annual Capacity</th>
<th>Rank</th>
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<tbody>
<tr>
<td>Mittal Steel</td>
<td>Steel</td>
<td>70 million tonnes</td>
<td>1</td>
</tr>
<tr>
<td>Birla Viscose</td>
<td>Viscose fibre</td>
<td>251,850 tonnes</td>
<td>1</td>
</tr>
<tr>
<td>Basell (Chatterjee/Access)</td>
<td>Polvopropylene</td>
<td>8 million tonnes</td>
<td>1</td>
</tr>
<tr>
<td>Reliance Industries</td>
<td>Polyester</td>
<td>1.8 million tonnes</td>
<td>1</td>
</tr>
<tr>
<td>Hero Cycles</td>
<td>Cycles</td>
<td>5.2 million units</td>
<td>1</td>
</tr>
<tr>
<td>Essel Propack</td>
<td>Laminated Packaging</td>
<td>4 billion units</td>
<td>1</td>
</tr>
<tr>
<td>Bharat Forge</td>
<td>Forgings</td>
<td>102,900 tonnes</td>
<td>2</td>
</tr>
<tr>
<td>Moser Baer</td>
<td>Optical media storage</td>
<td>2.5 billion units</td>
<td>3</td>
</tr>
<tr>
<td>Hero Honda</td>
<td>Two-wheelers</td>
<td>2.6 million units</td>
<td>1</td>
</tr>
<tr>
<td>Jubilant Organosys</td>
<td>Pyridine</td>
<td>22,500 tonnes</td>
<td>2</td>
</tr>
<tr>
<td>Orchid Chemicals</td>
<td>Cephalosporin</td>
<td>1,100 tonnes</td>
<td>5</td>
</tr>
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Table 1.2

Commodity Czars

What makes Mittal, Birla, Ambanis and the others command such enviable positions? Three reasons explain their commanding positions. First, the low cost of production. Second is the confidence these entrepreneurs have — confidence derived from their increased competitiveness and global outlook. Third, countries that were traditionally centres of manufacturing are finding their competitiveness eroded by other low-cost countries, and are therefore opting out of the race. In Europe, for example, a number of small auto-component manufactures are selling out and are being taken over by the likes of Bharat Forge.

**Globalisation:** Going international is yet another trend followed by modern business houses. Political boundaries are no barriers to business. Production facilities are being setup in different countries and products are being sold through a global network. Gradually, business houses are exposed to global competition which augurs well for consumers.

In fact, internationalisation or globalisation is fast becoming imperative for modern business due to technological innovations; crumbling trade barriers; global flow of capital and technology; information explosion; intensity of market competition; changing lifestyles and the demand for new products. The
success achieved by China and other Asian countries has demonstrated that imaginative and supportive economic and trade policies — domestic and external, accent on technological innovation, product design, quality, price, marketing strategy and infrastructure back-up play a vital role in carving a niche in the international business arena. Internationalisation of business is a means of sustaining a strong domestic base in terms of technology, product, market and the capital over a longer period.

Globalisation, however, is under fire. The economic meltdown all over the world has cast doubts on the future of internationalisation. Across the globe, countries are no more interested in further liberalisation of world trade. There is a frontal attack on trade liberalisation and a tendency to revert to protectionism. Globalisation will be discussed in greater detail in subsequent chapters.

Technology: Business is characterised by increasing use of technology. The impact of technology on business is pervasive. The way production function is organised; the way products are marketed; the way employees are hired and motivated; the way finance function is carried on; and the way managers and subordinates communicate with each other — all are influenced by technology. Because of its significance, we have devoted a full section to discuss the various dimensions of technology.

Waning Trust in Business: Trust in business is waning and the trend is getting accentuated thanks to the economic crisis witnessed as of now. This is so because of unlawful and unethical practices indulged in by businesses. Collapse of Satyam, Enron and Lehman Brothers has further eroded credibility of businesses. The Edelman Trust Barometre found that 62% of adults in 20 countries trusted businesses less (in 2008). A recent study of trust in professions found that businesses and banks came last along with politicians. A low-trust environment makes it difficult for business to function. For an individual company, loss of trust leads to higher transaction costs, lower brand value, and greater difficulty in attracting, retaining and managing talent. For businesses in general, loss of confidence in judgement-based systems of corporate governance could result in the imposition of rules-based systems, potentially increasing compliance costs and reducing flexibility.

What business should do? The most imperative thing to do is to regain trust of all the stakeholders and more effectively manage relationships with them. Business executives need to demonstrate to civil society that they understand popular and political concerns related to executive compensation, risk management, and the treatment of employees facing lay-offs.

Regaining trust also implies dispelling the notion that the business of business is only to enhance shareholder value. Broadening the list of key stakeholders to include employees, customers, suppliers, competitors, press, unions, government, and civil society will help companies rebuild their credibility.

<table>
<thead>
<tr>
<th>Have a Relook</th>
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<tbody>
<tr>
<td>How do you define business?</td>
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<tr>
<td>List the unique features of contemporary business.</td>
</tr>
<tr>
<td>Which of the above features best suit today’s business?</td>
</tr>
<tr>
<td>List the activities that together constitute business.</td>
</tr>
<tr>
<td>Why is trust in business waning?</td>
</tr>
<tr>
<td>Why is government assigned with bigger role?</td>
</tr>
</tbody>
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<table>
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<tr>
<th>Applying Mind</th>
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<tbody>
<tr>
<td>An NGO’s functions are almost same as those of a business enterprise. Why then NGOs are not called business enterprises?</td>
</tr>
<tr>
<td>Why do you think Indian firms are well poised to acquire foreign companies? Name typical Indian companies that are likely to be strong suitors.</td>
</tr>
</tbody>
</table>
In European and Asian companies, this multi-stakeholder approach is already visible. But it will be a challenge for US and UK companies, which have historically been more shareholder-centric in their decision-making, compensation practices, and performance management.

**Bigger Role for Government:** The present economic downturn has thrown open a situation where government intervention in business is rising. Policy makers have announced massive stimulus packages, saved faltering companies, and pledged regulatory reforms. They are taking part in decisions that were the domains of executives and boards. Previous crises have resulted in permanent changes in government’s role, and the present crisis is likely to do the same. This being the scenario, managers need to be cautious on the developments: prepare to compete under new regulatory regimes. Second, recognise that the public sector will grow in importance as a major customer for many industries because of rapid increase in spending.

It is not that the government’s role will end after the present crisis is over. Rising deficits and ageing populations will compel governments to deliver social services at lower costs. Creative partnerships between the public and private sectors will assume greater relevance.

**Predominance of Small Businesses:** Contrary to popular belief, modern business is not characterised by only huge conglomerates. In fact, majority of today’s business are small in size and low in scales. For example, of 800,000 companies in India (only 11,000 are listed), as many as 70% are family owned and controlled and which tend to be small sized units. 87% of employment in manufacturing is in firms with fewer than 10 employees each. Globally, 85% of companies in OECD countries are family centred. Small firms carry inherent strengths as well as debilitating weaknesses, as Chapter 19 shows.

Prosperity of a nation does not depend only on large MNCs, evidenced by Germany. Among all the European countries, Germany is the only country which is prospering and the credit for this goes to the dynamic role of small and medium enterprises. Same is the story with Canada and Denmark also.

Numbers wise, small units may dwarf large corporations. Visibility, globality, scales, and other dimensions-wise conglomerates are at the forefront. MNCs and large domestic firms are always in the news but rarely are written and read about challenges and struggles faced by the owners of small and medium business units. Another trend witnessed is that the number of daughters becoming board members or CEOs is rising.

**BUSINESS OBJECTIVES**

Before we describe business objectives, it is desirable to be clear about related concepts, viz., vision, mission and objectives.

**Vision:** A vision is a broad explanation of why the firm exists and where it is trying to lead. The vision provides the point of reference on the horizon — a beacon of light. The vision seeks to answer the following questions:

Where do we go from here?
What changes lie ahead in the business landscape?
What differences will these changes make to the company’s present business?

The vision gives the organisation a sense of purpose and a set of values that unite employees in a common destiny. The most effective vision is the one that inspires, and this inspiration often takes the form of asking for the best, the most or the greatest. It may be the best service, the most rugged product, or the greatest sense of achievement, but it must be inspirational. The vision of Infosys is —

“To be a globally respected corporation that provides best-of-breed business solutions, leveraging technology, vendors and society at large.”

**Mission:** A mission statement outlines the fundamental purpose of the organisation. A vision becomes tangible as a mission statement. If the vision statement answers the question “Where do we go from here?”, the mission statement answers “What is our business?”. 
A mission statement typically gives the organisation its own unique identity, business emphasis, and path for development. A mission statement incorporates four elements:

1. Customer needs, or **what** is being satisfied.
2. Customer groups, or **who** is being satisfied.
3. The company's activities, technologies, and competencies, or **how** the firm goes about creating and delivering value to customers and satisfying their needs.
4. The company's concern for survival, its philosophy, its self-concept and its concern for public image.

As stated above, mission statements are highly personalised — unique to the organisation for which they are developed. It is, therefore, normal that different firms in the same industry shall have different mission statements. The mission statement of Tata Motors is different from the mission statement of Toyota Kirloskar.

The mission statements of some companies are as follows:

"To achieve our objectives in an environment of fairness, honesty, and courtesy towards our clients, employees, vendors and society at large" (Infosys).

"Ford Motor Company is a world leader in automotive and automotive-related products and services as well as in newer industries, such as aerospace, communications, and financial services. Our mission is to improve continually our products and services to meet our customers' needs, allowing us to prosper as a business and to provide a reasonable return for our stockholders, the owners of our business."

**Objectives**

Mission statements are more specific than vision statements, but are not to be taken as concrete directions for action. Objectives render mission statements more concrete. In other words, mission statements seek to make a vision more specific and objectives are attempts to make mission statements more concrete. In short, they are compatible to each other. Objectives, therefore, represent the operational side of an organisation. (Read Box 1.1 for a jinxed case of failed objectives and forgotten mission). We focus on objectives here.

**BOX 1.1: FAILED OBJECTIVES AND FOREGOTTEN MISSION**

ET&T was set up in 1974 with a very small capital base of ₹ 50 lakh only. This was raised in 1985 to ₹ 5 crore, which was also not a very substantial amount in relative terms. The activities were being funded mainly by borrowing from other public sector undertakings and the Government of India. The number of employees is less than 500.

**Objectives and Performance**

To understand the true nature and large dimensions of ET&T’s intended role in India’s nascent electronics industry in the past two decades, one must look at its Memorandum of Association, which had spelt out the following objectives among others:

— to import and distribute in India electronic goods in short supply;
— to promote exports of all types of electronic products, and to explore and develop new markets abroad;
— to undertake techno-commercial negotiations with foreign organisations, in order to identify, locate, modify and standardise electronic plant and equipment for use in India;
— to locate proper technical know-how for production and development of electronic goods and infrastructure, and import these from abroad; and
— to promote joint production ventures with foreign enterprises.

The CAG sums up ET&T’s performance *vis-a-vis* these basic purposes (read mission) as follows:

...The corporation has confined itself primarily to trading activities, by importing certain electronic equipment (mainly television picture tubes), selling kits of electronic items like TV sets, and undertaking limited exports of Indian electronic goods....

‘Very little was done for achieving objectives like development of the Indian electronics industry through import of technical know-how, techno-commercial negotiations with organisations abroad, joint production ventures, and diversification of exports of Indian electronic goods.'
It may be stated that a typical business unit seeks to achieve more than one objective and there are always restraints to the attainment of some objectives. Objectives vary with the passage of time. Objectives common to most contemporary businesses are explained here (Also see Fig. 1.2).

**Profit:** Making profit is the primary goal of any business enterprise. Profit is the excess of income over expense. Profit is the main incentive, motivator, strong sustainer, judicious allocator of resources, objective indicator of productivity and a solid basis for growth, expansion and survival. Profit enables a businessman to realise his other objectives too.

Not all enterprises are interested in making profits. For example, hospitals, schools, charitable institutions and government agencies are not basically concerned with the acquisition of profits. The non-profit enterprises customarily rely on gifts, endowments, receipts from money raising projects, subsidies or taxes for sustenance. The basic objective of these establishments is the provision of a service which is socially desirable and useful (See also Box 1.2).

In profit-making enterprises, profit should not be the end in itself. Profit should be the beginning — acting as seed money for more products, more plants, more dividends, more tax payments, more jobs and more opportunities. Profits should promote the well-being of all... the rich and the poor; privileged and less privileged; consumers and producers and investors and non-investors. Ignoring this and over-emphasising profit may bring early death to an enterprise. For instance, wrote George R. Terry, “promoting
only products with high margins (to earn profits), ignoring research, and failing to provide working conditions satisfactory to employees, may in the ultimate, bring about the demise of an enterprise.

A business must live long to serve the society and for this it needs to earn profit year on year. Existence of an enterprise will be justified only when it is useful to society. It should answer itself one fundamental question: How has the society become different because of its (business unit) existence?

**Growth:** Growth is another primary objective of business. Business should grow in all directions over a period of time. An enterprise which remains stagnant for long is presumed to suffer from an organic defect.

The strategies adopted to achieve growth are:

(a) add more products/markets;
(b) diversify into new areas;
(c) integration — forward or backward;
(d) increase market share;
(e) expand markets or
(f) cut down costs and increase productivity.

**Power:** Business houses have vast resources (in the form of money, materials, men and know-how) at its command. These resources confer enormous economic and political power on owners and managers of business ventures. Next to the Prime Minister and Chief Ministers, perhaps, it is the business people who enjoy considerable clout in our country. Some businessmen mince no words in expressing the desire that they want more power. The late Aditya Birla used to assert that he built his empire to get more power.

Several enlightened businessmen have used their power for the good of society. One such illustration in our country was J.N. Tata, who passed away in 1904. He was a pioneer in industry, research, health care, art, literature and in many other areas. His name inspires awe and respect. It is hard to imagine what would have happened to the industrial map of our country if J.N. Tata had not been born in 1839 in a family of Parsi priests in Gujarat. “He was above all a patriot”, wrote The Times of India (April 13, 1912) “who made no public speeches. To his mind, wealth and the industry which led to wealth, were not ends in themselves, but means to an end, the stimulation of the latent resources of the country and its elevation in the scale of nations.”

**Employee Satisfaction and Development:** “If you want to plan for a year, plant corn. If you want to plan for 30 years, plant a tree. But if you want to plan for 100 years, plant men” — so goes a Chinese proverb. Business is people, said we, in the beginning of this chapter. Caring for employee satisfaction and providing for their development has been one of the objectives of enlightened business enterprises.

Concern for employees continues to be an important orientation of management, contrary to the expectation that human element will lose its significance thanks to automation. In fact, quality of personnel is considered to be one of the hallmarks of best managed and highly respected companies.

The Tatas are a legend in pursuing this objective. Either in implementing labour welfare measures, constituting safety and security measures, or in providing training and development facilities, the name of Tatas should be mentioned first.

**Quality Products and Services:** Providing quality products and services is yet another objective of business. Those who insisted on and persisted in quality survived competition and stayed ahead of others in the market. Persistent quality of products earns brand loyalty, a vital ingredient of success. Hindustan Unilever is flourishing mainly because of the quality of its products. Some of its products like Liril, Vim, Lifebuoy, Surf, Rin, Sunlight, Signal, Close-up, Lux, Rexona, Pears and others have become household names throughout the country. These products are accepted by buyers as safe, of high quality and reasonably priced. Behind its quality products, Hindustan Unilever has an excellent Research and Development (R&D) set-up and a high degree of professional management. The company is sitting pretty and is almost invincible.
There are other business people who believe in quick money. Quick money comes through short-cuts. These are the people who give us razor blades which fail to give us one smooth and neat shave, bulbs that do not give at least 100 light hours of service, leaky taps and adulterated goods. Such enterprises will not survive for long and should not survive also.

**Market Leadership:** To gain market leadership is another objective of business. To gain and retain market leadership is extremely difficult in these days of severe competition. Nevertheless, such factors as innovation, quality, cost, supply and after-sale service keep a firm ahead of others. Hindustan Unilever, Asian Paints, Bharti Airtel, and TCS are but some names that come to one’s mind while talking about leadership.

**Challenging:** Business offers vast scope and poses formidable challenges. Success in a business venture smacks of the abilities of individuals who own and failure betrays their inability and incompetence. The worth of an individual is tested more in business than in any other profession.

For Ratan Tata running business was a challenge. Confessed Tata in an interview thus: “I have asked myself this quite often. I don’t have monetary ownership in the company in which I work and I am not given to propagating the position I am in. I ask myself why I am doing this and I think it is perhaps the challenge. If I had an ideological choice, I would probably want to do something more for the uplift of the people of India. I have a strong desire not to make money but to see happiness created in a place where there isn’t” (See also Box 1.3).

**BOX 1.3: STORY OF XEROX**

The story of Xerox has an old-fashioned, even a 19th century ring — the lonely inventor in his crude laboratory, the small, family-oriented company, the initial setbacks, the eventual triumph, gloriously vindicating the free-enterprise system.

The story flashes back to 1938 and a second-floor kitchen above in a bar in Astoria, Queens, which was being used as a makeshift laboratory by an obscure 32 year old inventor, named Chester F. Carlson. The son of a barber of Swedish extraction, and a graduate in physics of the California Institute of Technology, Carlson was employed in New York in the patent department of P.R. Mallory and Co. In quest of fame, fortune and independence, Carlson was devoting his spare time, trying to invent an office copying machine, and to help him in this endeavour, he had hired Otto Kornei, a German refugee physicist. The fruit of their experiments was a process by which, on October 22, 1938, after using a good deal of clumsy equipment and producing considerable smoke and starch, they were able to transfer from one piece of paper to another the unheroic message “10-22-38 Astoria.” Thus, photocopying was born.

The idea of photocopying was then taken over by one Mr. Joseph C. Wilson of the Haloid Company which was manufacturing photographic papers. Overshadowed by the giant in the field, namely, Eastman Kodak, and dispirited by the Great Depression, Haloid Company was desperately looking for a new product which would bail the firm out of trouble. The idea of photocopying inherited by Carlson was a godsent opportunity to Haloid Company. Not that the company could reap fortunes out of the idea immediately. For several years, sleepless nights were spent and millions of dollars were poured in to further improvise the idea of Carlson. Only in 1950’s, the real breakthrough was achieved and from then onwards, it was smiles all the way to the bank for everyone associated with the Haloid Company, which was subsequently named as Xerox Corporation. It was indeed joy of creation for both Carlson, the inventor as well as for Joseph Wilson, the developer. (See Business Adventures by John Brooks.)

**Joy of Creation:** It is through business strategies new ideas and innovations are given a shape and are converted into useful products and services for the benefit of customers.

Although it may be too difficult to list all the products and services that business houses have provided us till now, it is interesting to mention that in the coming two or three decades, the following will receive considerable attention from researchers and business people:

Readily available artificial human organs, except the brain.
A means of transportation without an automobile, perhaps an individual flying machine.
Drugs to cure or prevent cancer and the common cold.
A pocket sized personal/business computer, i.e., a laptop or palm computers.
Clothing that can be cleaned by placing it in a ‘cleaning chamber’ for one minute.
A synthetic material to replace wood.
A simple injection to determine the sex of an unborn child.
Will there be a greater joy to a businessman coming out with a drug which can cure cancer? Its availability in the market will be of immense benefit to those who need it.

Service to Society: Business is a part of society and has several obligations towards it. Some of them are:
(i) providing safe and quality goods at reasonable prices;
(ii) providing employment;
(iii) patronising cultural and religious activities;
(iv) maintaining and protecting ecology; and
(v) supporting less privileged sections of people in society like Scheduled Castes and Scheduled Tribes, the physically handicapped, women and children.

Services of society is the main objective of a non-profit-making enterprise. Profit-making enterprises cannot afford to have service as the primary objective. It will be a secondary objective.

Good Corporate Citizenship: Good corporate citizenship implies that the business unit complies with the rules of the land, pays taxes to the government regularly, maintains ecology, discharges its obligations to society and cares for its employees and customers.

Bending rules of the land, evading tax payments by under-invoicing exports and dubious tax-planning; cornering licences at the cost of others; adulteration of quality products; and indulging in other unethical practices may earn money. But such practices hardly speak highly of corporate citizenship. The Tatas are a contrast to the general trend. Unethical practices are anathema to the Tatas. The best way to substantiate this claim is to quote J.R.D. Tata. “This factor has also worked against our growth. What would have happened if our philosophy was like that of some other companies which do not stop at any means to attain their ends. I have often thought of that and I have come to the conclusion that if we were like these other groups, we would be twice as big as we are today. What we have sacrificed is a 100 per cent growth.

CRITICS OF BUSINESS

The discussion till now has reflected the positive side of business. There is also the negative side to it and the critics are not lagging behind in pointing out the shortcomings. The criticisms are many, but all are based on one idea, viz., people in business place profits before enduring values such as honesty, truth, justice, love, devoutness, aesthetic merit and respect for nature. Specific criticisms are the following:
1. Business activity has a corrosive effect on a range of cherished cultural values.
2. Business dehumanises and exploits workers.
5. Business has destroyed handicraft and rendered artisans jobless.
7. Business multiplies needs and makes people greedy and avaricious.
8. Business leaders bend rules, cut corners, bribe officials and challenge existing authority.

Is business that bad? Has not business benefited society? Has it not built factories, provided jobs, saved lives and invented new things to the needy? Has not business promoted positive cultural values such as imagination, innovation, organised co-operation, hardwork and orderly life? Has business not improved the standard of living of people? Has it not lifted millions of people from poverty, ignorance, squalor and disease? Has business not brought the entire globe closer? Answers to all these and other questions are on the affirmative.
A wide range of critics differ in the nature of their attacks and their prescriptions to eliminate perceived ills. For our purpose, there are five groups of critics. (See Fig. 1.3).

**Activist Reformers:** This group comprises individuals and groups who accept and respect the basic legitimacy of the business system, but find flaws and try to rectify them. The philosophy of the activist reformer is exemplified by consumer Gandhi-Ralph Nader, who accepts American capitalism in its democratic setting but sees an imbalance of power between the people and the plutocracy. For 30 years, Nader has worked to redress this imbalance by building an organisation of public interest groups through which he and his followers pressure business houses and the government to accomplish reforms.

Activist reformers use a variety of tactics to make business houses follow fair business practices. Common tactics include negotiation, letter writing, speeches, lobbying legislatures and regulatory agencies, research and editorial writing.

**Liberal Intellectuals:** This group is comprised of thinkers who share a broad approach to social problems which they express with their pen rather than with the sword of criticism. This group believes that (i) human rights should be protected and enhanced, (ii) there is need to restrict corporate power, (iii) social arrangements can be improved through reforms, and (iv) government should be used to correct problems in society. Liberal intellectuals have a basic faith in democratic capitalism, but they find blemishes and suggest remedies consonant with their ideology. The writings of intellectuals with these broad beliefs have, over the years, been a source of great insight and timely ideas for reform.

Several great thinkers belong to the liberal intellectuals group. Galbraith, for instance, has written numerous books over 40 years advocating greater government control of business to reverse the loss of consumer sovereignty that results from the growth of large corporations. Similarly, in his 1956 book, The Organisation Man, sociologist, William H. Whyte, Jr., argued that big organisations produced undesirable conformity in employees.

**Marxists:** These critics reject current institutional structures and demand replacement with a collective state. Unlike reform-oriented critics, this group believes that the faults of capitalism cannot be ameliorated through gradual reforms. Basic institutions such as free market and private capital must be swept away.

Inspired by their intellectual progenitor, Karl Marx, these critics held sway over the world for a long time. But today, their influence is waning. The overthrow of Marxist governments in Eastern Europe in 1989 and 1990 and the deteriorated economies of the former Soviet republics have blunted the appeal of their critique. Though the movement is moribund, to dismiss it might be premature.

**Radical Non-Marxists:** The great economist E.F. Schumacher, who wrote Small is Beautiful, is one of the radical non-Marxist critics. Schumacher believes in restructuring the economy by limiting or ending growth. The radical non-Marxist critics argue that industrialisation is seriously endangering stable social and environmental existence on this planet. Materialism, competition, tireless labour and
individualism which are hallmarks of an industrial society are to be replaced by moderation, group harmony, co-operation and leisure.

**Reactionaries:** Reactionary critics assail corporations for responding to liberal critics, going too far in the direction of non-market social responsibilities, or taking political and moral stands that conflict with conservative positions. Milton Friedman, for instance, rebukes business houses for undertaking social responsibility activities that depart from its traditional economic role.

Thus, critics of business are many and their arguments are valid and deserve serious attention by business firms and governments. If criticism is properly channelled, it can preserve the best of the business institutions and usher in wider benefits.

**WHAT IS ENVIRONMENT?**

Environment refers to all external forces which have a bearing on the functioning of business.

"Environmental factors or constraints", wrote Barry M. Richman and Melvyn Copen, "are largely if not totally, external and beyond the control of individual industrial enterprises and their management. These are essentially the ‘givens’ within which firms and their managements must operate in a specific country and they vary, often greatly, from country to country."

The business environment poses threats to a firm or offers immense opportunities for potential market exploitation. Stressing this aspect, William F. Glueck and Lawrence R. Jauch wrote thus: "The environment includes factors outside the firm which can lead to opportunities for or threats to the firm. Although there are many factors, the most important of the sectors are socio-economic, technological, suppliers, competitors, and government."

As per the second definition, environment includes such factors as socio-economic, technological, supplier, competitor and the government. While all these are highly relevant, there are two more factors which are not included in the definition, and which exercise considerable influence on business. They are physical or natural environment and global environment. Including these two, the total environment of business, for our purposes, will include six factors, viz., political-legal, economic, social-cultural, technological, global and natural. As can be seen in the subsequent chapters, all these factors are explained in greater detail. A brief description of each, however, follows in the following paragraphs.
Technological environment exercises considerable influence on business. Technology is understood as the systematic application of scientific or other organised knowledge to practical tasks. It is through business that technology reaches people. Technology changes fast and to keep pace with it, businessmen should be ever alert to adopt changed technology in their businesses.

Economic environment refers to all forces which have an economic impact on business. Industrial production, agriculture, planning, basic economic philosophy, infrastructure, national income, per capita income, money supply, price level, population, savings, stages in the economic development and trade cycles are major factors which make up the total economic environment. There is close relationship between business and its economic environment. Business obtains all its needed inputs from the economic environment and it absorbs the output of business units.

Political environment refers to the influence exerted by the three political institutions, viz., legislature, executive and the judiciary in shaping, directing, developing and controlling business activities. The legislature decides on a particular course of action; the executive, also called the government, implements whatever was decided by the Parliament and the judiciary functions as the watchdog in order to ensure that both the legislature and the executive function in public interest and within the boundaries of the Constitution. A stable and dynamic political environment is indispensable for business growth.

Notwithstanding spectacular advancements made in science and technology, man’s attempt to conquer nature has not met with total success. He has no answer, for example, for the flourishing affluence co-existing with stark poverty; severe droughts and devastating floods occurring in sickening regularity; and some other such phenomena. Man still finds himself helpless before mighty nature. Business, an economic pursuit of man, continues to be dictated by nature. To what extent business depends on nature and what is the relationship between the two constitutes an interesting study.

Yet another environmental factor which is fast emerging as the force to reckon with is the global or international environment. Thanks to liberalisation, Indian companies are forced to view business issues from a global perspective. Business responses and managerial practices must be fine-tuned to survive in the global environment. A manager must understand that safe and protected markets are no more there; that the world is becoming small in size thanks to advanced means of transport and communication facilities; that learning of foreign languages is a necessity; that acquiring familiarity with strange and changing currencies is a must; that facing political and legal uncertainties is inevitable; and that adapting their products to different customer needs and tastes would only help companies survive amidst intense competition. Implications of the global environment are elaborated in separate chapters that follow.

Social and cultural environment refers to the influence exercised by certain factors which are beyond the company’s gate. Such factors include people’s attitude to work and wealth; role of family, marriage, religion and education; ethical issues and social responsiveness of business. Social and cultural environment is highly relevant for a business unit as the variety of goods it produces, the type of employees it gets and its obligation to society depend on the cultural milieu in which the firm operates.

Table 1.3 contains important variables of each environmental factor.

Thus, business is the product of the technological, political-legal, economic, social-cultural, global and natural factors amidst which it functions. Three features are common to this web of relationship between business and its environment. First, there is symbiotic relationship between business and its environment and among the environmental factors. In other words, business is influenced by its environment and in turn, to a certain degree, it will influence the external forces. Similarly, political-legal environment influences economic environment and vice versa. The same is the relationship between other environmental factors too.

The second feature is that these environmental factors are dynamic. They keep changing as years roll by, so does business.

The third feature is that a particular business firm, by itself, may not be in a position to change its environment. But along with other firms, business will be in a position to mould the environment in its favour, to a large extent.
Part A • Essentials of Business Environment

It is not that environment comprises only external forces. There are certain internal factors which are equally decisive in their influence on a firm. Such forces include shareholders, managers, employees, and unions. Obviously, environment of business comprises both external as well as internal forces as Fig. 1.4 shows. But the focus in this book is on external environment.

Table 1.3
Environmental Factors and their Features

<table>
<thead>
<tr>
<th>Global Environment</th>
<th>Technological Environment</th>
<th>Economic Environment</th>
<th>Political Environment</th>
<th>Social-Cultural Environment</th>
<th>Natural Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing opportunity as world has become one market</td>
<td>Technology reaches people through business</td>
<td>Growth strategy</td>
<td>Role of legislature</td>
<td>Culture creates people</td>
<td>Manufacturing depends on physical inputs</td>
</tr>
<tr>
<td>Improving quality</td>
<td>Increased productivity</td>
<td>Economic planning</td>
<td>Role of executive</td>
<td>Culture and globalisation</td>
<td>Mining and drilling depend on natural deposits</td>
</tr>
<tr>
<td>Competition from MNCs</td>
<td>Need to spend on R&amp;D</td>
<td>Economic system</td>
<td>Role of judiciary</td>
<td>Culture determines goods and services</td>
<td>Agriculture depends on nature</td>
</tr>
<tr>
<td>Capital and technology transfers</td>
<td>Fast changing technology</td>
<td>Industry</td>
<td>Constitution of India</td>
<td>People’s attitude to business and work</td>
<td>Trade between two regions depends on geographical factors.</td>
</tr>
<tr>
<td>Deciding which markets to enter and how to enter</td>
<td>Rise and decline of products and organisations</td>
<td>Agriculture</td>
<td>New direction for government’s role</td>
<td>Cast system</td>
<td>Transport and communication depend on geographical factors.</td>
</tr>
<tr>
<td>Adjusting the management process</td>
<td>High expectations of consumers</td>
<td>Infrastructure</td>
<td>New economic policy</td>
<td>Spirit of collectivism and individualisation</td>
<td></td>
</tr>
<tr>
<td>India and WTO</td>
<td>Problem of technology</td>
<td>Money and capital markets</td>
<td></td>
<td>Education</td>
<td></td>
</tr>
<tr>
<td></td>
<td>System complexity</td>
<td>Per capita and national income</td>
<td></td>
<td>Family and marriage</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Increased regulation and stiff opposition</td>
<td>Population</td>
<td></td>
<td>Authority</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Demand for capital</td>
<td>New economic policy</td>
<td></td>
<td>Scientific spirit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Social change</td>
<td></td>
<td></td>
<td>Ethics in business</td>
<td></td>
</tr>
</tbody>
</table>

Figure 1.4
Environment of Business
Knowing the Environment

The environment, as described above, provides a mass of ambiguous information. What should be done to make relevance out of the information? What is to accepted and what rejected? Three related concepts seek to answer these questions. They are: (i) the enacted environment, (ii) the domain and domain consensus, and (iii) the task environment.

**Enacted Environment:** An organisation seeks to create its own environment out of the total external environment. The environment which the organisation creates is called enactment. Enactment implies that the organisation creates a relevant environment for itself by aggressively scoping, narrowing and scanning the external environment. In effect, the organisation creates the environment to which it reacts. It does not react to the entire environment.

**Domain and Domain Consensus:** The domain is that part of the enacted environment which the organisation carves out for itself. The firm delineates its own territory out of the environment.

The delineated territory comprises the range of products offered, population served and services rendered. The organisation focusses its efforts on these three areas while paying less attention to other areas.

As is well known, an organisation has many stakeholders — owners, employees, customers, government, public, suppliers and lenders. Domain Consensus is formed when all the stakeholders agree upon the domain of the organisation.

When domain consensus is not reached, conflicts can arise regarding parts of the environment which should be monitored. This conflict causes confusion and backbiting, when the company is blindsided by an unexpected occurrence from a poorly monitored sector.

**Task Environment:** This specifies the range of products to be offered, the technology to be employed and the productive strategies to be used to counter the global competition.

It is the task environment which needs constant surveillance, though elements outside are not ignored, but are paid less attention.

**Objectives and Uses of Study**

Environmental analysis has three basic goals. First, the analysis should provide an understanding of current and potential changes taking place in the task environment. It is important that one must be aware of the existing environment. At the same time, one must have a long-term perspective too.

Secondly, environmental analysis should provide inputs for strategic decision-making. (See Fig. 1.5). Mere collection of data is not enough. The information collected must be used in strategic decision-making.

Thirdly, environmental analysis should facilitate and foster strategic thinking in organisations—typically a rich source of ideas and understanding of the context within which a firm operates. It should challenge the current wisdom by bringing fresh viewpoints into the organisation.

In addition, environmental analysis helps identify a firm’s survival and success factors (See Table 1.4). It goes without stating that a firm needs all the survival factors, if it were to merely survive and at least one of the success factors if it were to succeed.
If industry has/is/suffers from....

### Table 1.4

<table>
<thead>
<tr>
<th>Industry Survival and Success Factors</th>
<th>Indicative survival factors</th>
<th>Indicative success factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Powerful buyers with low switching costs</td>
<td>Meeting minimum buyer requirements</td>
<td>Strong differentiation; negotiation skills; strong relationships with buyers (i.e., good architecture)</td>
</tr>
<tr>
<td>Powerful suppliers</td>
<td>Negotiation skills</td>
<td>Scale to improve bargaining power; vertical integration or innovation to develop substitute supplies (if possible); co-development</td>
</tr>
<tr>
<td>Low barriers to entry and/or high threat of substitution</td>
<td>(Survival difficult without success)</td>
<td>Strong differentiation; low costs</td>
</tr>
<tr>
<td>Powerful complementors</td>
<td>Compliance with dominant standards</td>
<td>Strong complementor relationships; dominant technological position</td>
</tr>
<tr>
<td>Fast-growing</td>
<td>Technology; cash for growth</td>
<td>Advanced technology</td>
</tr>
<tr>
<td>Mature</td>
<td>Minimum economic scale, viable cost structure</td>
<td>Scale or other cost advantage; buyer relationships</td>
</tr>
<tr>
<td>Declining</td>
<td>(If success not possible withdrawal may be best option)</td>
<td>Strong reputation, low costs</td>
</tr>
<tr>
<td>Unstable political environment</td>
<td>Understanding of political risks</td>
<td>Ability to influence political outcomes (due to scale, relationships)</td>
</tr>
<tr>
<td>Economic recession</td>
<td>Cash reserves to ride out downturn; viable cost structure</td>
<td>Reputation for value for money; superior value proposition; strong non-price differentiation</td>
</tr>
<tr>
<td>Fast-changing technology</td>
<td>Innovation to keep up</td>
<td>Disruptive innovation</td>
</tr>
</tbody>
</table>

(Source: Adrian Haberberg and Alisen Rieple, op. cit., p.139)

Specifically, the benefits of environmental analysis include the following:

- Analysis of competitors’ strategies and formulation of effective counter-measures.
- Develop action plans to deal with technological advancements.
- Identify, prioritise and exploit opportunities.
- Minimise the effects of adverse conditions and changes.
- Better decisions to support established objectives.
- More effective allocation of resources to identified opportunities.
- Integrate behaviours of individuals into a total effort.
- Keep managers dynamic.
- Encourage forward thinking and develop favourable attitudes towards change.
- Degree of discipline and professionalism to the management of a business.

For nearly two decades after being established, TCS was content with serving the Indian market. Thorough understanding the then prevailing environment, convinced the management that the local market was not big enough to sustain TCS. Management decided to go global, particularly to the US. They did go and as on today 90% of the revenues of TCS are generated from overseas markets. The IT major has more than 240,000 employees working in 42 countries with turnover of over $10 billion.

The late Dhirubhai Ambani was opposed to his firm going global. He was content with serving domestic market which was huge and growing. Three things came in the way. First, Reliance Industries was making huge profits, year after year. Second, knowledge about overseas markets and their potential
was unknown to him as he was not educated in any business school. Third, he was a true patriot and serving his own country gave him altruistic satisfaction.

Unlike his father, Mukesh Ambani and Anil Ambani are highly educated; they understood the potentials of overseas markets and saw writing on the wall—future lies in oneself going global. They did go and Mukesh is the richest Indian as on today. With him, his firm also grew and prospered.

Mukesh Ambani is not sitting idle. Look at his speech at the 39th annual general meeting: “I believe India’s future is digital. Indeed, mankind’s future is digital. I envisage a new India in the not-too-distant future, where almost everything we do is digitally transferred. . . . I see a new India which will use digital currency instead of paper currency, for a more secure and convenient way to transact.” Mukesh Ambani is reacting to the Government’s move to step up cyber-security powers. And he is readying for cyber war.

A study of business environment assumes greater importance during periods of scarcity. When confronted with resource-scarce environment, organisations seek to get more from less by applying frugality in every activity they perform at every step along the value chain. They become frugal in how they design products, how they build them, how they deliver them, and how they perform after-sales maintenance. Their frugality shows up not only in their parsimonious use of capital and natural resources, but also in how they maximise their limited time and energy: rather than doing everything themselves, by relying on partners to perform various operations, thus saving time and energy.

How best a firm can partner with others to become frugal can be understood by the experience of Xerox. Xerox has partnered with IIT Madras to use cloud computing to improve the efficiency of document services library. It is also working with IIT Madras’s Rural Technology Business Incubator (RTBI) to co-create affordable solutions to improve workflow at small rural businesses in India. Such smart partnerships enable Xerox to generate locally relevant solutions faster, better and cheaper.

PepsiCo is another instance to be remembered in this context. One of the critical resources fundamental to PepsiCo’s business is water. There is clear need for PepsiCo to achieve water use efficiency to both improve product outputs and provide access to safe water for those in water-distressed areas. In India, an environment of severe water scarcity prompted members of the PepsiCo India team to investigate ways to reduce water use throughout the supply chain. One technique they developed is an eco-friendly agronomic technique called ‘direct seeding’ of rice paddies. Direct seeding has saved 30% of the usual water requirement in paddy cultivation or approximately 900 kilolitres (2,38,000 gallons) of water per acre. In addition, direct seeding cuts greenhouse gas emissions by 70 per cent.

Binny Mill was a household name decades back. Specialists in supply of uniform cloth to school children, Binny was a market leader in all segments of cloth, basically cotton woven. Then came synthetic fabrics from Reliance which captured the market like fire. Binny was taken by surprise, too late to realise and too weak to react. Binny is now not even a shadow of its former self.

Jim Collins in his best-selling book – Good to Great – opines that the good to great companies 11 of them, all based in the US) became so because of their dependence for decision making on brutal facts of reality. Such facts were obviously collected from the study of environment.

William F. Glueck and Lawrence R. Jauch have stressed the negative consequences of failure to study the environment. They have written that, “In the years between 1918 and 1968, almost half of the 100 largest American firms went out of business or became significantly less important to society. Often, a company becomes convinced that it is almost invincible and does not have to examine what is happening in the marketplace. When the company ceases to adjust the environment to its strategy or does not react to the demands of the environment by changing its strategy, the result is lessened achievement of corporate objectives.”

They went on to stress that “Environmental analysis and diagnosis give strategists time to anticipate opportunities and to plan to take optimal responses to these opportunities. It also helps strategists to develop an early warning system to prevent threats or to develop strategies which can turn a threat to the firm’s advantage.”

Without a systematic environmental search and diagnosis, the time pressure of the managerial job can lead to inadequately thought-out responses to the environmental changes. It is clear that because of
the difficulty to assessing the future, not all future events can be anticipated. But some can and are. To the extent that some or most are anticipated by this analysis and diagnosis, managerial decisions are likely to be better. And the process reduces the time pressures on the few which are not anticipated. Thus, the managers can concentrate on these few instead of having to deal with all the environmental opportunities and threats in the pressure-cooker environment.

Table 1.5 reveals the names of firms which have initiated changes in response to environmental changes.

<table>
<thead>
<tr>
<th>Name of the company</th>
<th>Environmental changes</th>
<th>Strategic responses</th>
<th>Consequences</th>
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<tbody>
<tr>
<td>1. Housing Develop-</td>
<td>• Competition in the</td>
<td>• Decision to extend</td>
<td>As most of the</td>
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<td>ment Finance</td>
<td>ment Finance sector,</td>
<td>finance to corporate</td>
<td>plans are in</td>
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<td>Corporation (HDFC)</td>
<td>as many as 30 players</td>
<td>sector for office</td>
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<td>in the field.</td>
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<td>• Government’s dilly-</td>
<td>• Series of joint</td>
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<td>dailying on on</td>
<td>ventures in areas</td>
<td>give results.</td>
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<td></td>
<td>foreclosure norms and</td>
<td>that offer synergistic</td>
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<td>stamp duty laws and</td>
<td>support to existing</td>
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<td>its confusing signals</td>
<td>core business, viz.,</td>
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<td>in opening up the</td>
<td>housing finance.</td>
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<td>insurance sector.</td>
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<td>2. Crompton Greaves</td>
<td>• Fear of multination-</td>
<td>• Restructuring the</td>
<td>Growing confidence</td>
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<td></td>
<td>als</td>
<td>company into 4</td>
<td>in facing competition</td>
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<td></td>
<td>• Poor financial</td>
<td>strategic business</td>
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<td>results during the</td>
<td>units (SBUs), each</td>
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<td></td>
<td>first half of 1996-97</td>
<td>headed by a president.</td>
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<td></td>
<td>• Return of consign-</td>
<td>• Vacated presence</td>
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<td>ment of consignants</td>
<td>in television market</td>
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<td>of fans from Italy</td>
<td>and the joint venture</td>
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<td>as the tapples on its</td>
<td>with Bausch AG of</td>
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<td>boxes gathered rust.</td>
<td>Germany to manufacture</td>
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<td>washing machines has</td>
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<td>been called off.</td>
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<td>• Joint venture with</td>
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<td>Deltec, USA, to</td>
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<td>• Thrust on related</td>
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<td>diversification with</td>
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<td>a view to consolidate</td>
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<td>3. UB Group</td>
<td>• Liberalisation era</td>
<td>• Internationally to</td>
<td>With the excess</td>
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<td>has forced business-</td>
<td>consolidate strength</td>
<td>baggage being</td>
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<td>men think of core</td>
<td>in brewing and</td>
<td>shed, UB Group</td>
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<td>competencies.</td>
<td>distilling.</td>
<td>looks slim and</td>
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<td></td>
<td>• Reckless diversifi-</td>
<td>• In India to focus</td>
<td>vibrant.</td>
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<td>cations made during</td>
<td>on engineering,</td>
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<td>pre-liberalisation</td>
<td>services, health</td>
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<td>era became liabilities</td>
<td>care/agricmnicals,</td>
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<td>brewing and distilling</td>
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<td>• Restructuring</td>
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<td>management consultancy</td>
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<td></td>
<td>firm-Arthur Anderson.</td>
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<td>4. Asea Brown Boveri</td>
<td>• In keeping the trend</td>
<td>• Four pronged strategy</td>
<td>Since 21st century is 3 years</td>
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<td>(ABB)</td>
<td>- grow big.</td>
<td>enter infrastructure</td>
<td>ahead, its not possible to say</td>
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<td></td>
<td>• Need to have an</td>
<td>development; greater</td>
<td>for certain. However, given</td>
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<td></td>
<td>eight-fold growth</td>
<td>thrust in industrial</td>
<td>ABB’s track record, the figure</td>
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<td></td>
<td>plan to surpass a</td>
<td>sector; push exports</td>
<td>is not beyond reach.</td>
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<td>turnover of ₹ 12,000</td>
<td>to 25 per cent of</td>
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<td>crores by 2000.</td>
<td>turnover; and go in</td>
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<td>for third country</td>
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In order to further substantiate the benefits of environmental analysis, it may be said that the real value of the analysis inheres in the product of the analysis as well as the process of engaging in it.

At the product level, the outputs of environment analysis generally consist of: (1) descriptions of changes currently taking place, (2) harbingers of potential changes in the future, and (3) alternative descriptions of future change. Together, they provide descriptions of alternative futures. Such descriptions provide organisations with lead time to identify, understand and adapt to external issues, to anticipate the consequences of the environmental trends, and to develop well thought-out positions and policies. In addition, lead time enables an organisation to convert emerging issues from threats to opportunities.

At the level of process, environmental analysis underscores the notion that organisations are necessarily pervious to the influence of outside forces. When conducted properly, this leads to the enhanced capacity and commitment to understanding, anticipating and responding to external changes on the part of the firm’s key strategic managers. Responsiveness is achieved by inducing managers to think beyond their task or industry environments, often forcing them to reflect upon their cognitive biases. In short, at the process level, environmental analysis offers a basis for organisational learning.
Takeaways

What are the takeaways for a student from reading business environment? There are a few as explained below.

A commerce or management graduate is likely to take up a responsible job in corporate sector or start a business of his or her own. When he or she becomes an entrepreneur, knowledge about political system, technology, culture, nature and their impact on business is highly useful, nay essential. A business unit does not operate in isolation. It is a product of the environment in which the business operates.

Where the individual becomes an employee, knowledge about environment within which the employing organisation is operating is useful to him or her. He or she can develop a matured and responsible outlook towards his or her organisation instead of finding faults over issues like pay-hike, promotion, foreign assignments and the like.

The tendency among people is to find fault with the Government for whatever little inconvenience caused to them. Why rupee is becoming cheap? Why inflation is high? Why gold prices are soaring? Why vegetables are expensive? Why people are jobless? Why monsoon is not normal? There is no end to the grievances of citizens. For all these and more, Government alone should not be blamed. True, certain issues could be better managed and on certain others, Government is helpless. It operates under diverse pressure groups, constitutional obligations, regional pulls and people’s expectations. A knowledgeable person weighs in all these before slinging mud at the Government. A study of business environment provides such a knowledge.

What with fast life, laptops, westernised lifestyle, inter-religion alliances and globe-trotting, people tend to forget own cultural moorings. It is the culture which plays decisive role at every stage in one’s business. Section Five in this book carries comprehensive discussion of the interface between culture and business. This is a reminder to every individual that he or she can forget or ignore culture at his or her own peril.

Thanks to advanced technology, today’s human beings believe that they can be independent of nature. True, man has travelled a long way in surmounting challenges and obstacles placed by nature. But for answers to certain questions, one has to look to nature only. Why people in one country/region are more hardworking than others? Why Mumbaikars, for example, are more agile and fast in communications than many Bangalorians? Why we have bountiful monsoons in one year and drought in another? Questions add on. Answers are found in the physical environment. An individual needs to be aware of this environmental factor.

Limitations of Environmental Analysis

Environmental analysis, as with any other analysis, has certain limitations. These limitations are:

1. Environmental analysis does not foretell the future, nor does it eliminate uncertainty for any organisation. Thus, organisations that practise environmental analysis sometimes confront unexpected events — events not anticipated during environmental analysis. Environmental analysis, however, should reduce the frequency and extent of surprises that may confront a company.

2. Environmental analysis on and off itself, is not a sufficient guarantor of organisational effectiveness. It is only one of the inputs in strategy development and testing.

3. The potential of environmental analysis is often not realised because of how it is practised. It is sometimes used as a crutch for post-hoc reflections. At times, managers place uncritical faith in the data without thinking about the data’s verifiability or accuracy.

4. Too much reliance is often placed on the information collected through environmental scanning. When there is overloading of information, one is likely to get lost and become inactive — typical of ‘paralysis through analysis syndrome’.

Take the case of Norton Company, an industrial abrasives manufacturer and a competitor of 3M in the US. Norton faithfully studied environment and followed all management models, systems and
procedures. Inspite of all Norton’s state-of-the-art management systems, its performance remained disappointing. Persistently poor results left the company vulnerable and, in 1990, it was absorbed into the French giant, Compagnie de Saint-Gobain.

Meanwhile, 3M achieved success but following a different path. The company did not get caught by the paralysis syndrome. Leaders here placed little emphasis on top-down planning and control. Instead, they nurtured the innovative ideas of sales engineers and sales representatives, thereby building an entrepreneurial engine that generated a stream of profitable new products and promising new technologies.

Going into post-war boon, 3M and Norton were roughly the same size. By the mid-1980s, 3M was reporting sales eight times those of its old competitor. Ironically, just as Norton was swallowed up by Saint Gobain, 3M was named for the fifth time in six years to Fortune’s list of the ten most admired corporations.

Success lies in adventure and strategic risk taking. It eludes those who hesitate to step forward. Environmental analysis often makes an individual too cautious in his approach and he is likely to be overtaken by events. So, this analysis should be strategically done.

The Process of Environmental Analysis

Environmental analysis is a challenging, time-consuming and expensive affair. The analysis consists of four sequential steps: (i) scanning, (ii) monitoring, (iii) forecasting, and (iv) assessment.

**Scanning** - Being the first step in the process of environmental analysis, scanning involves general surveillance of all environmental factors and their interactions in order to (a) identify early signals of possible environmental change, and (b) detect environmental change already under way.

Scanning is ill-structured and ambiguous environmental analysis activity. The potentially relevant data for scanning are unlimited but are scattered, vague, and imprecise. The fundamental challenge for analysis in scanning is, therefore, to make sense out of vague, ambiguous, and unconnected data.

**Monitoring** - Monitoring involves tracking the environmental trends, sequences of events, or streams of activities. It frequently involves following signals or indicators unearthed during environmental scanning. The purpose of monitoring is to assemble sufficient data to discern whether certain trends and patterns are emerging. Thus, as monitoring progresses, the data turn frequently from imprecise to precise.

Three outcomes emerge out of monitoring: (a) a specific description of environmental trends and patterns to be forecast; (b) the identification of trends for further monitoring, and (c) the identification of areas for further scanning. These outputs (particularly the first) become inputs for forecasting. They will also cause for further scanning and monitoring.

**Forecasting** - Scanning and monitoring provide a picture of what has already taken place and what is happening. Strategic decision-making, however, requires a future orientation. Naturally, forecasting is an essential element in environmental analysis.

Forecasting is concerned with developing plausible projections of the direction, scope, and intensity of environmental change. It tries to draw a layout for the evolutionary path of anticipated change. For example, how long will it take the new technology to reach the marketplace? Are current lifestyle trends likely to continue? These kinds of questions provide the grist for forecasting efforts.

Unlike scanning and monitoring, forecasting is well focussed and is much more deductive and complex activity. This is so because the focus, scope and goals of forecasting are more specific than the earlier two stages of environmental analysis.

**Assessment** - Scanning, monitoring and forecasting are not ends in themselves. Unless their outputs are assessed to determine implications for the organisation’s current and potential strategies, scanning, monitoring and forecasting simply provide ‘nice-to-know’ information. Assessment involves identifying and evaluating how and why current and projected environmental changes affect or will affect strategic management of the organisation.

In assessment, the frame of reference moves from understanding the environment — the focus of scanning, monitoring and forecasting — to identifying what the understanding means for the organisation.
Assessment, therefore, tries to answer questions such as what are the key issues presented by the environment, and what are the implications of such issues for the organisation?

**Linkages Among Stages**

Though conceptually scanning, monitoring, forecasting and assessment are separate activities, they are inextricably intertwined (See Fig. 1.6).

For example, upon unearthing an emerging trend through scanning, one might quickly jump to potential implications for the organisation (assessment) by implicitly forecasting the future path of the trend. If warranted by the potential impact, one may then continue scanning and monitoring. Also, forecasting often proves difficult, if not impossible, because of insufficient knowledge and data about the topic or trends being forecast, thus forcing a return to scanning and monitoring efforts. Deriving implications (assessment) often allots the organisation to the need to conduct further scanning, monitoring and forecasting. Thus, environmental analysis is not as simple and as linear as moving from scanning to monitoring to forecasting to assessment.

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**Have a Relook**

Give meaning of each of the following:
- (i) Environment
- (ii) Enacted Environment
- (iii) Domain Consensus
- (iv) Task Environment

Distinguish between forecasting and assessment.
Bring out the features of political and technological factors.
List the benefits of environmental analysis.
Describe the process of environmental analysis.

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**Applying Mind**

Do you think Tata Steel’s acquisition of Corus and Tata Motors’ take over of Jaguar and Land Rover are the right decisions?

Take a look at Table 1.5. In what ways do survival factors differ from success factors?
Why has strategic alliance between Bharti and Wal-Mart failed?
Organisation for Analysis

Who does analysis in a typical organisation? This is a relevant question. The answer is everybody who holds some post in the organisation. To be specific, the top executive, marketing manager, financial manager and purchasing manager are the people who could assume the responsibility. The Production Manager may not be able to contribute much because his job demands that he should confine his time and energy to the shop floor. Some organisations maintain Management Information Systems (MIS) which can be utilised to handle the job of analysing environment. The best alternative is to have an exclusive department for the purpose to be headed by a competent official. This would entail additional expenditure but the additional cost is worth considering the risk involved in not considering the changes taking place in the environment.

Whatever may be the organisational arrangement, one should understand that environmental analysis is an activity that requires people, resources, and time. Someone in the organisation must spend the time to do the requisite analytical tasks involved in environmental analysis. Resources beyond people are often required: money to fund data collection, to buy outside analysis capability, or to support internal analysis efforts. Much managerial time is often consumed in organising to carry out the analytical tasks inherent in environmental analysis: deciding who should do what in collecting, analysing, and interpreting data; and creating the organisational processes such as task forces, adhoc teams, or working groups required to effect these tasks.

QUESTIONS

1. What is business? How does business of today differ from that of four to five decades ago?
2. What are business objectives?
3. "Profit making is the primary goal of any business enterprise." Yes or no—discuss.
4. What is business environment?
5. "Firms which systematically analyse and diagnose the environment are more effective than those which don’t." Elucidate.
7. "Environmental scanning should provide inputs for strategic decision-making." Elaborate.
8. Bring out the limitations of environmental analysis.
9. Sketch organisational arrangement for environmental analysis.
10. Why are business houses criticised?

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CASE - MATTER OF TRUST

When Tata Group Founder: Jamsetji Nusserwanji Tata designed his coat of arms in 1869, it was the highest Zoroastrian principles of humata (good thoughts), hukhta (good works) and hvarshta (good deeds) that he inscribed on the blue insignia. The inspiring motto was just right for the businessman who was a descendant of the Parsi priests of Navsari in Gujarat. Many decades and many generations later, the house of Tatas still lives by that credo.

In the big bad world of business, Tatas are a unique example. The various philanthropic Tata Trusts own about 65.8 per cent of the holding company — Tata Sons. Each of the Tata Sons’ chairman adhered to the lofty values set by the founder and over generations won over the Indian populace. Ultimately, it’s not the size of his business, or the sheer scale of his ambition but this position as the guardian of that collective trust that the people of India place in the Tatas which made Ratan Tata India’s most powerful CEO of the decade.

Run through the annals of history, and you will find that there are few industrial houses across the globe that have played a more important role in nation building than the Tatas have in India. Whether it was the group’s foray into textiles, power, chemicals or steel in the early 1900s or transport in 1945 or software in late 1968; each new business venture created an industry and in turn made India more self-reliant.

Tatas have practised patriotic entrepreneurship from the outset. When Tata Steel raised money from domestic investors in 1906, Jamshetji’s son Sir Dorabji Tata wrote, “It was the first time that the raw material of India did not go out and return as finished articles to be sold in the country. Above all, it was purely swadeshi enterprise financed by swadeshi money and managed by swadeshi brains.”

Most of these projects in the early 1900s were downright risky and ahead of their time. That never deterred the Tatas. When Sir Frederick Upcott, Chief Commissioner of Railways heard about Dorabji Tata’s plan to make steel in India, he replied sarcastically, “Do you mean to say that Tata proposes to make steel rails to British specifications? Why, I will undertake to eat every pound of steel rail they succeed in making”. The rest, as they say, is history.

So when critics scoffed at Ratan Tata’s proposal to make a \( \text{A}_1 \) lakh car in the early 2000s, they erred; history was merely repeating itself. Ratan Tata was not going to break a promise, just like none of his ancestors ever had. When the Nano was eventually launched in 2009, a nation was united in pride.

It’s difficult to find a similar match of profits and purpose across the globe. For a young nation to stand tall, an ecosystem of world-class institutions is imperative and the Tatas have always stepped up to give India the best. Prestigious institutes like Indian Institute of Science, Tata Institute of Social Science, Tata Institute of Fundamental Research, Tata Environmental and Research Institute, Tata Memorial Hospital and NCPA owe their existence to the foresight and monetary contributions from the group.

The lives of lakhs of Indians continue to be touched by the group every single day by the various Tata Trusts. The Tatas and philanthropy go hand in hand today because it was a tradition that Jamsetji set right at the very start. In September 1898, he pledged half his personal wealth to make
his dream of the ‘University of Research’ attain fruition, and in 1892, he set up an endowment to enable Indian scholars to pursue post-graduate studies. Even today the three big Tata Trusts — JN Tata Trust, Sir Dorabji Trust, and Sir Ratan Trust — cover the entire gamut of philanthropic activities in fields as diverse as education, art and innovation. For Ratan Tata to announce a Taj Public Service Welfare Trust to help the 26/11 massacre victims was a natural step given a family legacy where one of the ancestors of Ratan Tata even bequeathed his cuff links and tie pins to charity.

Social philanthropy aside, the Tata leaders have the added responsibility of propriety. In an industrial milieu where business family fights were and are the order of the day, Tatas have been true role models. Apart from Jamsetji and his son Dorabji, no Tata Sons chairman has been a direct descendant. Dorabji Tata and his successor Nowroji Saklatwala were first cousins, Saklatwala and JRD Tata were second cousins, and JRD and current chairman Ratan Tata were second cousins twice removed. The other Tata family members like Ratan Tata in the early 1900s, Naval Tata in the 60s and 70s and now, Noel Tata quietly served the group; palace intrigues remain a non-issue in Tata land.

Though there have been isolated instances like Nandigram, the Tatas have believed in social responsibility and inclusive growth throughout their journey. As far back as 1902, when the founder Jamsetji wrote to his son Dorabji about planning an industrial city in Gurumahisani Hills where iron ore was found, he said, ‘Be sure to lay wide streets planted with shady trees, every other of a quick growing variety. Be sure that there is plenty of space for lawns and gardens’; Jamsetji didn’t want to replicate the dingy British industrial towns. It was not a Tata thing to do.

It’s long been our tricky question for any CEO: Can you read your company’s mission and value statement with a straight face? Most fail. But not Ratan Tata, JRD Tata or J.N. Tata.

Questions:

1. While describing the characteristic features of business, we said that the trust in business is receding. But here is a story that tells how trust matters. Is there any contradiction?
2. Could you guess what would have happened to India and to Indian business if Tatas did not become businessmen?
3. Tatas have proved that profits and purposes can coexist. Why can’t other businesses follow the same line?