UNIT 5: ENVIRONMENTAL ANALYSIS AND APPRAISAL

UNIT STRUCTURE

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5.1 LEARNING OBJECTIVES

After going trough this unit, you will be able to:

- discuss the internal and external factors which affect business.
- learn the components of environment
- learn the importance of environmental scanning

5.2 INTRODUCTION

By establishing the hierarchy of strategic intent, an organization knows what it wants to achieve. Now it has to decide how it will achieve. This question can be answered by formulating strategies. The first stage in the process of strategy formulation is analysis and appraisal of the environment in which

the organization will operate. In this unit we are going to discuss the concept of environment: Internal and external environment, will learn the classification of external environment, concept of environmental Scanning, factors affecting environmental Scanning and at the end of the unit we will discuss the techniques and measures of environmental scanning.

5.3 CONCEPT OF ENVIRONMENT

The development of mission and objectives involves analysis and appraisal of environment. The results of internal and external appraisals will help managers determine what goals and mission they can or should adopt, and the strategic options that are available. Therefore, in formulating a strategy, the effective general manager makes strategic choices which are consistent with environmental factors. The biases or preferences for action shape the decision makers' view of the situation.

The concept 'environment' is often used in two ways: i.) external forces which lie outside the organization and ii.) internal forces which lie inside the organisation.

Organizations do not exist in a vacuum. Many factors enter into the forming of a company's strategy. Each exists within a complex network of environmental forces.

These forces, conditions, situations, events, and relationships over which the organization has little control are referred to collectively as the organization's **environment**.

In general terms, environment can be broken down into three areas:

1. **The macro environment, or general environment** (remote environment) - that is, economic, social, political and legal systems in the country;
2. **Operating environment** - that is, competitors, markets, customers, regulatory agencies, and stakeholders; and
3. **The internal environment** - that is, employees, managers, union, and board directors.

In formulating a strategy, the strategic decision makers must analyze conditions internal to the organization as well as conditions in the external environment, which are described in the following sections.

5.4 NATURE OF ENVIRONMENT

Strategic management sets the general direction of the business and ensures its survival in the face of external environmental challenges. Business environment includes all elements outside the organization that can potentially affect all or part of the organization. The external environment significantly influences the performance of small firms. Business environment is constantly changing in different ways; hence, managers need to be aware of and react to these changes.

1. **Complexity:** the environment consists of several factors and forces which interacts with each others. Greater the number of diversity of environmental forces, higher is the degree of heir complexity. The range of environmental forces and their heterogeneity has increased since globalization. Today's business world operates in a highly complex environment.

2. **Dynamism:** The environment is dynamic as it is changing continuously. The rate of change in environment is fast and unpredictable. When the rate of change is high and variable, environment becomes volatile.

The main characteristics of business environment are as follows:

1. **Totality of External forces:** Business environment is the sum total of all things external to business firms and as such is aggregative in nature.

2. **Specific and general forces:** Business environment includes both specific and general forces. Specific forces affect individual enterprises directly and immediately in their day-to-day working.

General forces have impact on all business enterprises and thus may affect an individual firm only indirectly

3. **Dynamic nature:** Business environment is dynamic in that it keeps on changing weather in terms of technological improvement**,** shifts in consumer preferences or entry of new competition in the market.

4. **Environmental Uncertainty:** In an environment characterized by uncertainty, information about environmental factors is scarce and predicting external changes is difficult. In such an environment, it is difficult to calculate the costs of alternative decisions and the probability of their success. This increases the risk of failure.

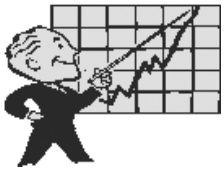
5. **Task Environment:** The task environment of a business comprises the sectors of the market that are directly relevant to its operations, such as suppliers and competitors. In a dynamic environment, there are important changes in the task environment. For example, constant and unpredictable swings in fuel costs can increase raw material transportation costs. Moreover, competitors constantly threaten the market share of the company.

6. **Societal Change:** Demographic, social and cultural changes are altering the competitive landscape. The aging population means there will be an expansion in the health care sector. The rising new generation has fundamentally different tastes and reshapes the economy. For example, new industries such as computer gaming were formed to satisfy their distinct needs.

7. **Technological Change:** The pace of technological change is high, and presents both opportunities and threats. As a case in point, rapid expansion of information and communications technology has given rise to e-commerce. Businesses can source and sell to a global market, but this also means that their markets are constantly under threat from foreign companies.

8. **Economic and Political Challenges:** In the interconnected world economy, companies are affected by economic and political challenges from abroad. Political upheavals, recession and natural disasters thousands of miles away affect business outlook, stock market indexes, and prices of important commodities such as oil.

9. **Regulatory Complexity:** Businesses face an increasingly complex regulatory web. Compliance with regulations on hazardous material disposal, human resource practices, and taxes can be challenging for small companies. Small businesses are an important part of the economy, and governments try to stimulate their formation and growth. Making sense of these incentives is also vitally important for small-business managers.



CHECK YOUR PROGRESS

Q1: Define Environment

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Q2: Write any four characteristics of Environment.

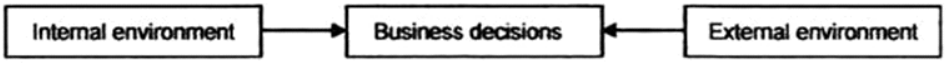
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5.5 INTERNAL AND EXTERNAL ENVIRONMENT

Internal consists of financial, physical, human and technological resources. Internal environment consists of controllable factors that can be modified according to needs of the external environment.

The external environment consists of legal, political, socio-cultural, demographic factors etc. These are uncontrollable factors and firms adapt to this environment. They adjust internal environment with the external environment to take advantage of the environmental opportunities and strive

against environmental threats. Business decisions are affected by both internal and external environment.



5.5.1. Internal Environment

The internal environment is the environment that has a direct impact on the business. Here there are some internal factors which are generally controllable because the company has control over these factors. It can alter or modify such factors as its personnel, physical facilities, and organization and functional means, like marketing, to suit the environment.

The important internal factors which have a bearing on the strategy and other decisionsof internal organization are discussed below.

1. **Value system:** The value system of the founders and those at the controls of affairs has important bearing on the choice of business, the mission and the objectives of the organization, business policies and practices.

2. **Mission and vision and objectives:** Vision means the ability to think about the future with imagination and wisdom. Vision is an important factor in achieving the objectives of the organization. The mission is the medium through which the objectives are achieved.

3. **Management structure and nature:** The structure of the organization also influences the business decisions. The organizational structure like the composition of board of directors influences the decisions of business as they are internal factors. The structure and style of the organization may delay a decision making or some other helps in making quick decisions.

4. **Internal power relationships:** The relationship among the three levels of the organization also influences on the business. The mutual co-ordination among those three is an important need for

a business. The relationship among the people working in the three levels of the organization should be cordial.

5. Human resource: The human resource is the important factor for any organization as it contributes to the strength and weakness of any organization. The human resource in any organization must have characteristics like skills, quality, high morale, commitment towards the work, attitude, etc. T he involvement and initiative of the people in an organization at different levels may vary from organization to organization. The organizational culture and overall environment have bearing on them.

6. Company image and brand equity: The image of the company in the outside market has the impact on the internal environment of the company. It helps in raising the finance, making joint ventures, other alliances, expansions and acquisitions, entering sale and purchase contracts, launching new products, etc. Brand equity also helps the company in same way.

7. Miscellaneous factors: The other factors that contribute to the business success or failure are as follows:

a. Physical assets and facilities: Physical Assets and facilities like production capacity, technology is among the factors which influence the competitiveness of the firm. The proper working of the assets is indeed for free flow of working of the company.

b. Research and development: Though Research and development department is basically done through external environment but it has a direct impact on the organization. These aspects mainly determine the company's ability to innovate and compete with the competitors.

c. Marketing resources: In an organization the quality of the manpower in marketing, brand equity, and in distribution network has direct bearing on marketing efficiency of the company.

d. Financial factors: Factors like financial policies, financial positions and capital structure are also important internal environment affecting business performances, strategies and decisions.

5.5.2. External Environment

It refers to the environment that has an indirect influence on the business. The factors are uncontrollable by the business. There are two types of external environment. They are:

a. Micro Environment

b. Macro Environment

Let us discuss these in detail.

A. MICRO ENVIRONMENT: The micro environment is also known as the task environment and operating environment because the micro environmental forces have a direct bearing on the operations of the firm. The micro environmental factors are more intimately linked with the company than the macro factors. "The micro environment consists of the actors in the company's immediate environment that affects the performance of the company. These include the suppliers, marketing intermediaries, competitors, customers and the public"

i. **Suppliers:** An important force in the micro environment of a company is the suppliers, i.e., those who supply the inputs like raw materials and components to the company. The importance of reliable source/sources of supply to the smooth functioning of the business is obvious

ii. **Customer:** The major task of a business is to create and sustain customers. A business exists only because of its customers. The choice of customer segments should be made by considering a number of factors including the relative profitability, dependability, and stability of demand, growth prospects and the extent of competition. Competition not only include the other firms that produce same product but also those firms which compete for the income of the consumers the competition here among these products may be said as desire competition as the primary task here is to fulfill the desire of the customers. The competition that satisfies a particular category desire then it is called generic competition.

iii. **Marketing Intermediaries:** The marketing intermediaries include middlemen such as agents and merchants that help the company find customers or close sales with them. The marketing intermediaries are vital links between the company and the final consumers.

iv. **Financiers:** The financiers are also important factors of internal environment. Along with financing capabilities of the company their policies and strategies, attitudes towards risk, ability to provide non-financial assistance etc. are very important.

v. **Public:** Public can be said as any group that has an actual or potential interest in or on an organization's ability to achieve its interest. Public include media and citizens. Growth of consumer public is an important development affecting business.

B. MACRO ENVIRONMENT: Macro environment is also known as General environment and remote environment. Macro factors are generally more uncontrollable than micro environment factors. When the macro factors become uncontrollable, the success of company depends upon its adaptability to the environment. Some of the macro environment factors are discussed below:

i. Economic Environment: Economic environment refers to the aggregate of the nature of economic system of the country, business cycles, the socio-economic infrastructure etc. The successful businessman visualizes the external factors affecting the business, anticipating, prospective market situations and makes suitable to get the maximum with minimize cost.

ii. Social Environment: The social dimension or environment of a nation determines the value system of the society which, in turn affects the functioning of the business. Sociological factors such as costs structure, customs and conventions, mobility of labor etc. have far-reaching impact on the business. These factors determine the work culture and mobility of labor, work groups etc.

iii. Political Environment: The political environment of a country is influenced by the political organizations such as philosophy of political parties, ideology of government or party in power, nature and extent of bureaucracy influence of primary group's etc. The political environment of the country influences the business to a great extent.

iv. Legal Environment: Legal environment includes flexibility and adaptability of law and other legal rules governing the business. It may include the exact rulings and decision of the courts. These affect the business and its managers to a great extent.

Technical Environment: The business in a country is greatly influenced by the technological development. The technology adopted by the industries determines the type and quality of goods and services to be produced and the type and quality of plant and equipment to be used. Technological environment influences the business in terms of investment in technology, consistent application of technology and the effects of technology on markets.



CHECK YOUR PROGRESS

Q3: What is Internal and External Environment?

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Q4: List any three factors of Macro Environment.

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5.6 CLASSIFICATION OF EXTERNAL ENVIRONMENT

A. ECONOMIC ENVIRONMENT: The survival and success of each and every business enterprise depend fully on its economic environment. The main factors that affect the economic environment are:

(a) Economic Conditions: The economic conditions of a nation refer to a set of economic factors that have great influence on business organisations and their operations. These include gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market etc. All these help in improving the pace of economic growth.

(b) Economic Policies: All business activities and operations are directly influenced by the economic policies framed by the government from time to time. Some of the important economic policies are:

i. **Industrial policy**: The Industrial policy of the government covers all those principles, policies, rules, regulations and procedures, which direct and control the industrial enterprises of the country and shape the pattern of industrial development.

ii. **Fiscal policy:** It includes government policy in respect of public expenditure, taxation and public debt.

iii. **Monetary policy**: It includes all those activities and interventions that aim at smooth supply of credit to the business and a boost to trade and industry.

iv. **Foreign investment policy:** This policy aims at regulating the inflow of foreign investment in various sectors for speeding up industrial development and take advantage of the modern technology.

v. **Export–Import policy** (Exim policy): It aims at increasing exports and bridge the gap between expert and import. Through this policy, the government announces various duties/levies. The focus now-a-days lies on removing barriers and controls and lowering the custom duties.

The government keeps on changing these policies from time to time in view of the developments taking place in the economic scenario, political expediency and the changing requirement. Every business firm has to function strictly within the policy framework and respond to the changes therein.

c.) Economic System: The world economy is primarily governed by three types of economic systems, for example :

(i) Capitalist economy

(ii) Socialist economy

(iii) Mixed economy.

India has adopted the mixed economy system which implies co-existence of public sector and private sector.

B. DEMOGRAPHIC ENVIRONMENT: This refers to the size, density, distribution and growth rate of population. All these factors have a direct bearing on the demand for various goods and services. For example a country where population rate is high and children constitute a large section of population, and then there is more demand for baby products. Similarly the demand of the people of cities and towns are different than the people of rural areas. The high rise of population indicates the easy availability of labour. These encourage the business enterprises to use labour intensive techniques of production. Moreover, availability of skill labour in certain areas motivates the firms to set up their units in such area. For example, the business units from America, Canada, Australia, Germany, UK, are coming to India due to easy availability of skilled manpower. Thus, a firm that keeps a watch on the changes on the demographic front and reads them accurately will find opportunities knocking at its doorsteps.

C. POLITICAL ENVIRONMENT: This includes the political system, the government policies and attitude towards the business community and the unionism. All these aspects have a bearing on the strategies adopted by the business firms. The stability of the government also influences business and related activities to a great extent. It sends a signal of strength, confidence to various interest groups and investors. Further, ideology of the political party also influences the business organisation and its operations. You may be aware that Coca-Cola, a cold drink widely used even now, had to wind up operations in India in late seventies. Again the trade union activities also influence the operation of business enterprises. Most of the labour unions in India are affiliated to various political parties.

Strikes, lockouts and labour disputes etc. also adversely affect the business operations. However, with the competitive business environment, trade unions are now showing great maturity and started contributing positively to the success of the business organisation and its operations through workers participation in management.

D. LEGAL ENVIRONMENT: This refers to set of laws, regulations, which influence the business organisations and their operations. Every business organisation has to obey, and work within the framework of the law. The important legislations that concern the business enterprises include:

(i) Companies Act, 1956
(ii) Foreign Exchange Management Act, 1999
(iii) The Factories Act, 1948
(iv) Industrial Disputes Act, 1972
(v) Payment of Gratuity Act, 1972
(vi) Industries (Development and Regulation) Act, 1951
(vii) Prevention of Food Adulteration Act, 1954
(viii) Essential Commodities Act, 2002
(ix) The Standards of Weights and Measures Act, 1956
(x) Monopolies and Restrictive Trade Practices Act, 1969
(xi) Trade Marks Act, 1999
(xii) Bureau of Indian Standards Act, 1986
(xiii) Consumer Protection Act, 1986
(xiv) Environment Protection Act
(xv) Competition Act, 2002

Besides, the above legislations, the following are also form part of the legal environment of business.

(i) **Provisions of the Constitution:** The provisions of the Articles of the Indian Constitution, particularly directive principles, rights and duties of citizens, legislative powers of the central and state government also influence the operation of business enterprises.

(ii) **Judicial Decisions**: The judiciary has to ensure that the legislature and the government function in the interest of the public

and act within the boundaries of the constitution. The various judgments given by the court in different matters relating to trade and industry also influence the business activities

E. SOCIAL – CULTURAL ENVIRONMENT: The social environment of business includes social factors like customs, traditions, values, beliefs, poverty, literacy, life expectancy rate etc. The social structure and the values that a society cherishes have a considerable influence on the functioning of business firms. For example, during festive seasons there is an increase in the demand for new clothes, sweets, fruits, flower, etc. Due to increase in literacy rate the consumers are becoming more conscious of the quality of the products. Due to change in family composition, more nuclear families with single child concepts have come up. This increases the demand for the different types of household goods. It may be noted that the consumption patterns, the dressing and living styles of people belonging to different social structures and culture vary significantly.

F. TECHNOLOGICAL ENVIRONMENT: Technological environment include the methods, techniques and approaches adopted for production of goods and services and its distribution. The varying technological environments of different countries affect the designing of products. For example, in USA and many other countries electrical appliances are designed for 110 volts. But when these are made for India, they have to be of 220 volts. In the modern competitive age, the pace of technological changes is very fast. Hence, in order to survive and grow in the market, a business has to adopt the technological changes from time to time. It may be noted that scientific research for improvement and innovation in products and services is a regular activity in most of the big industrial organisations. Now a day's in fact, no firm can afford to persist with the outdated technologies. Technological environment thus create new markets and new business segments.

Its main elements are as follows:

i. Sources, cost and transfer of technology

ii. Stages of technological progress, rate of change in technology, research and development facilities

iii. Man – machine system, impact of technology on people and environment

iv. Restriction on transfer of technology, time taken in technology absorption, incentives and facilities for technological innovations.

G. NATURAL ENVIRONMENT: The natural environment includes geographical and ecological factors that influence the business operations. These factors include the availability of natural resources, weather and climatic condition, location aspect, topographical factors, etc. Business is greatly influenced by the nature of natural environment. For example, sugar factories are set up only at those places where sugarcane can be grown. It is always considered better to establish manufacturing unit near the sources of input. Further, government's policies to maintain ecological balance, conservation of natural resources etc. put additional responsibility on the business sector.

H. INTERNATIONAL ENVIRONMENT: The international or global environment consists of all those factors that operate at the transnational and cross cultural levels. Its main elements are as follows:

i. The process, content and direction of globalization

ii. The process of and trends in global trade and forces

iii. Global economic organizations and forums; and regional economic blocks.

iv. Global financial system and international accounting standards

v. Global markets and international competitiveness

vi. Global demographic pattern an trends

vii. Global information systems and communication networks and media

viii. Global technological and quality systems and standards.

ix. Global legal and arbitration system

x. Global human resource trends and globalization of management

Large Indian firms are making attempts to align themselves to emerging global trends. They are adopting global business practices and international accounting and reporting standards. India's corporate sector is taking greater interest in the World Trade Organisation (WTO), International Monetary Fund (IMF), World Economic forum (WEF) and other international agencies.

I. SUPPLIER ENVIRONMENT: They are the people and groups which supply inputs tot eh firms. An organization must acquire raw materials, labour, equipments etc. in order to produce products and services. In the case of raw materials, an organization must ensure a steady supply of high quality at the minimum possible price. The acquisition of human resources depends on variation in labour market, trade unions and labour laws.

Cost availability and reliability of raw materials, parts, components and sub assemblies have become increasingly important. Manufacturers are also more concerned about cost, availability and reliability of energy, human resources, plant and machinery, infrastructure and other inputs. Companies are paying increasing attention to supplier environment in strategy formulation. They complain that shortage and high cost of raw materials, power and capital are affecting their profitability and growth.

J. MARKET ENVIRONMENT: The marketing activities of the business are affected by several internal and external factors. While some of the factors are in the control of the business, most of these are not and the business has to adapt itself to avoid being affected by changes in these factors. These external and internal factors group together to form a marketing environment in which the business operates.

The marketing environment of a business consists of an internal and an external environment. The internal environment is company specific and includes owners, workers, machines, materials etc. The external environment is further divided into two components: micro & macro. The micro or the task environment is also specific to the business but external. It consists of factors engaged in producing, distributing, and promoting the offering. The macro or the broad environment includes larger societal forces

which affect society as a whole. The broad environment is made up of six components: demographic, economic, physical, technological, political-legal, and social-cultural environment.

5.7 CONCEPT OF ENVIRONMENTAL SCANNING

Environmental scanning or environmental analysis or external analysis is the process through which an organization monitors various environmental forces to identify opportunities and threats which it is likely to face. The main features of environmental scanning are as follows:

i. **Holistic:** Environmental analysis is a holistic exercise because it takes a total rather than piecemeal view of environmental forces. No doubt environment is divided into different components for the sake of comprehension but finally the analysis of these components is aggregated to have a total view of the environment.

ii. **Exploratory:** Environmental scanning is an exploratory or heuristic process. It attempts to estimate what could happen in future on the basis of present trends. Possible alternatives futures are identified on the basis of different assumptions. The probabilities of these alternatives futures are also estimated to arrive at more rational conclusion.

iii. **Continuous:** Environmental analysis is an ongoing rather than an intermittent exercise. Continuous scanning of the environment is necessary to identify the trends. More relevant trends are analyzed in details to understand their impact on the organization.

Environmental analysis plays a vital role in strategy formulation. In the absence of environmental analysis, no meaningful strategy can be formulated. Organisation which regularly monitor their environment outperform those which do not analyze their environment. For example, ITC, TCS, Reliance Industries Limited and other companies which give very high priority to the environmental scanning have achieved high growth rates over decades.

5.8 APPROACHES TO ENVIRONMENTAL SCANNING

The following approaches can be suggested for scanning the environment:

1. **Systematic Approach**: Under this approach, a highly systematic and formal procedure is used to collect process and interpret information about the environment. In order to monitor the environment, information concerning markets, customers, government policies, and regulations and other environmental factors influencing the organization and its industry is collected on a continuous basis. Proactive organizations with a high degree of sensitivity too the environment use this approach. The anticipated changes in the environment and their data collection and processing are well structured.

2. **Adhoc Approach**: Under this approach, special surveys and studies are conducted about specific environmental issues. For example, an organization planning to undertake a special project may conduct a survey to develop new strategies. The impact of unforeseen changes in the environment may also be investigated. Reactive organizations which are less sensitive to the environment often adopt an adhoc and informal approach to environmental scanning.

3. **Processed–form Approach:** Under this approach, processed information available from different internal and external sources is used. For example, data contained in government publications (Census Report, etc.) may be used. This approach adopted by a particular organization depends on the nature of the environment (stable or dynamic), concern for environment (low or high concern), importance of environment (directly relevant or general environment), etc.

5.9 FACTORS AFFECTING ENVIRONMENTAL ANALYSIS

There are numerous factors in the environment but only some of them are relevant to an organization. Only those environmental factors are relevant which have an impact on the organization. The choice of environmental factors also depends upon the following factors:

1. **Organization – Related factor**: The nature, age, size, competitive power, complexity, etc. of the organization have an impact on environmental analysis. For example, new, large, and less powerful organizations require more information than old, small and more powerful organizations. Similarly, organizations operating in multiple products and /or unrelated products and with geographically dispersed operations need more information than single product and concentrated organizations.

2. **Strategist – Related factors**: Strategists plays a central role in strategy formulation. Therefore, their age, education, experience, motivation level, attitudes, sense of responsibilities and the ability to face time pressure have a major impact on environmental analysis. For example, forward looking and long term oriented managers seeks more information than those who believes in status and short term.

3. **Environment - related facto**r: How does an organization scan its environment also depends on the nature of environment. A more thorough scanning s required when the environment is complex, volatile, hostile and diverse.



CHECK YOUR PROGRESS

Q5: What are the fators affecting external environments?

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Q6: Define Environmental Scanning

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Q7: Define Technological Environment

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5.10 TECHNIQUES OF ENVIRONMENTAL SCANNING

Several techniques are used for scanning the environmental. Some of these are described below:

1. **Environmental Threat and Opportunity Profile (ETOP):** The ETOP is the most useful technique of structuring the results of environmental analysis. ETOP or environmental impact Matrix is a summary of the environmental factors and their impact on the organization.

The preparation of ETOP involves the following steps:

i. Selection of Environmental factor: First of all, relevant competent of the environment are selected. Each major factors are divided into economic policies, economic indices, market environment etc.

ii. Assessment of Importance: The importance of each selected factor / sub factor is assessed in qualitative (high, medium, low) or quantitative (3, 2,1)terms.

iii. Measurement of impact: The positive and negative impact of each factor is measured as opportunities and threats respectively.

iv. Combinations of Importance and Impact: The importance and impact of each factor together indicate clearly the situation.

ETOP can be prepared in two forms: matrix form or descriptive form. In matrix form importance and impact of each environment factor are expressed in quantities. In descriptive forms the impact is expressed as being positive or negative. ETOP provides a clear picture of which the organization stands in relation to the environment. It indicates the opportunities and threats which the organization is likely to face. Such an understanding is very useful in formulating appropriate strategies which will help the organization to take advantage of the opportunities and to counter the threats in its environment.

2. P.E.S.T. Analysis: The acronym P.E.S.T. stands for Political, Economic, Social and Technological environment. These environmental factors create opportunities and threats for an organization. Some strategists rearrange these variables as social, Technological, Economic, and Political and use the acronym S.T.E.P. analysis. Each categories of these factors contain innumerable elements. The more common elements are as follows :

i. Political Analysis : It involves analysis of

- Political system and stability
- Legal framework concerning business
- Political parties and their ideology
- Risk of military invasion
- Foreign relations with other nations
- Bureaucracy and red tape
- Political corruption

ii. Economic Analysis: It involves analysis of

- Economic System
- Economic policies
- Economic indices

- Economic markets
- Financial markets
- Industrial infrastructure

iii. **Social Analysis** : It involves analysis of:

- Demographics
- Class structure
- Family system
- Education levels
- Cultural Values, attitudes and interests
- Entrepreneurial spirit

iv. **Technological Analysis** : It involves analysis of

- Level of technological progress
- Rate of technology diffusion
- Transfer of foreign technology
- Impact of technology on costs, quality and value chain.



5.11 LET US SUM UP

In this unit we discussed the following:

- The concept 'environment' is often used in two ways: i.) external forces which lie outside the organization and ii.) internal forces which lie inside the organisation.
- In general terms, environment can be broken down into three areas:
  a. The macro environment, or general environment
  b. Operating environment
  c. The internal environment
- Business environment includes all elements outside the organization that can potentially affect all or part of the organization. The external environment significantly influences the performance of small firms.

- The main characteristics of business environment are as follows: Totality of External forces, Specific and general forces, Dynamic nature, Environmental Uncertainty, Task Environment, Societal Change, Technological Change, Economic and Political Challenges, Regulatory Complexity
- External environment can be classified according to :economic environment, demographic environment, political environment, legal environment, social – cultural environment, technological environment, natural environment, international environment, market environment
- Environmental scanning or environmental analysis or external analysis is the process through which an organization monitors various environmental forces to identify opportunities and threats which it is likely to face.
- The approaches for scanning the environment are :Systematic Approach, Adhoc Approach, Processed-form Approach.
- The techniques used for scanning the environmental are : Environmental Threat and Opportunity Profile (ETOP) and P.E.S.T. Analysis



5.12 FURTHER READING

1. Cherunilam Francis (2015), Business Policy and Strategic Management, Himalaya Publication House , New Delhi
2. C Appa Rao, B Parvathiswara Rao, K Sivaramakrishna (2008); Strategic Management and Business Policy, Excel Books, Nerw Delhi
3. Tandon A (2010); Business Policy and Strategic Management; Anmol Publications Pvt.Ltd.
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5.13 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: The concept 'environment' is often used in two ways: i.) external forces which lie outside the organization and ii.) internal forces which lie inside the organization.

Ans to Q2: The main characteristics of business environment are: Totality of External forces, Specific and general forces, Dynamic nature and Environmental Uncertainty

Ans to Q3: The internal environment is the environment that has a direct impact on the business. Here there are some internal factors which are generally controllable because the company has control over these factors.

It refers to the environment that has an indirect influence on the business. The factors are uncontrollable by the business. There are two types of external environment. They are:

a. Micro Environment

b. Macro Environment

Ans to Q4: Some of the Macro environment factors are: Economic Environment, Social Environment and Political Environment

Ans to Q5: The main factors that affect the economic environment are: Economic Conditions, Economic Policies and Economic System

Ans to Q6: Environmental scanning or environmental analysis or external analysis is the process through which an organization monitors various environmental forces to identify opportunities and threats which it is likely to face.

Ans to Q7: Technological environment include the methods, techniques and approaches adopted for production of goods and services and its distribution.



5.14 MODEL QUESTIONS

Q1: Define Environment

Q2: Define Environmental Scanning.

Q3: Write the nature and characteristics of Environment

Q4: What is Internal and External Environment?

Q5: Discuss the two types of External Environment.

Q6: Classify External Environment

Q7: List the main features of Environmental Scanning

Q8: Discuss the different approaches to Environmental Scanning

Q9: Explain the factors affecting environmental analysis

Q10: Describe the methods and techniques of environmental scanning

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