Here are a few examples illustrating the impact of political environment on business:

- Indian industrialists evince a healthy and keen interest in the country's politics for several reasons. Political parties set the agenda for legislation affecting business. The government, despite liberalisation measures, wields enormous regulatory powers that could make or mar an industry. Political funding of elections is widespread among industrialists. In fact, several of them openly come out in favour of a particular political party while a few have also joined politics. There is a genuine concern about the stability of coalition governments, a common feature of the political system since the last several years, as stability of the government bodes well for business and industry.
- The ideological forces that make up the centres of power in the political coalitions that rule India offer an interesting mosaic of conflicting interests and political posturing. There are leftists and rightists of various shades and hues populating the treasury and opposition benches in the parliament. Being a genuine, working democracy, though unruly and noisy, the Indian political system has to incorporate a wide variety of political ideologies. Owing to social heterogeneity and economic disparities, the political environment in India inevitably is conflict-ridden. It is difficult in such an environment to build political consensus and organise concerted action toward long-term economic reform. This results in weak political action that is often hesitant and halting. For Indian politicians, support for reforms depends on which side of the governing divide they are. Once out of power, the politicians oppose reforms that they themselves vociferously supported. Frequently characterised as 'vote-bank-driven politics', such politics creates a situation where economic sense often is seen to be sacrificed at the altar of politics. Prime ministers of India have to be astute behavioural experts to manage the disparate elements that make up the coalitions they are supposed to lead. No wonder, only mature politicians are allowed to take the risk of occupying the prime ministerial position. Strategic planners within organisations need to take into account such political realities in India.
- Maoists, Naxalites and ultra-leftists are some of the epithets used to designate the violent political protestors in India. Thirteen states of India and a quarter of the nearly 600 districts are estimated to be affected by such socio-political movements. The aims of these socio-political movements are controversial with supporters and rivals projecting differing viewpoints. The implications for the economy are considered to be negative in the sense that political upheavals create an unfavourable business environment for the corporate sector. A number of these States where the Maoists are most active are rich in iron ore, coal, bauxite, manganese and other minerals and have the potential to attract billions of dollars in investment and to create hundreds of thousands of sorely needed jobs. Singur, in West Bengal, a state affected by Naxalism, faced an acute political crisis when the communist state government allowed Tata Motors to set up an assembly plant in the vicinity of Kolkata. Jharkhand and Orissa – other states seeking to attract domestic and foreign investments – too face similar political predicaments. Prime Minister Manmohan Singh went to the extent of terming these protest movements as 'the single greatest threat to India's internal stability and democratic culture'. To others, they may just represent a misplaced response to 'unbridled capitalism and mindless consumerism'.

Regulatory Environment

legal Political + Social

The regulatory environment consists of factors related to planning, promotion and regulation of economic activities by the government that have an impact on the business of an organisation.

Some of the important factors and influences operating in the regulatory environment are as follows:

1. The constitutional framework, directive principles, fundamental rights and division of legislative powers between the Central, State and local governments.
2. Policies related to licensing, monopolies, foreign investment and financing of industries.
3. Policies related to distribution and pricing and their control.

4. Policies related to imports and exports.
5. Other policies related to the public sector, small-scale industries, sick industries, development of backward areas, control of environmental pollution and consumer protection.

Since the Indian economy is largely centrally planned and controlled, the principle of regulation of economic activities by public authorities in the wider interests of all stakeholders has taken roots. Business and industry operate within a regulatory environment. The relationship between industry and the regulatory environment exists as a two-way process. The government lays down the policies. procedures and rules according to which the industry functions. Occasionally, the industry also tries to influence the government through lobbying, creating public awareness and opinion by issuing press advertisements and through influencing the parliamentary legislative process to create a favourable policy framework for the benefit of its constituent businesses and companies. But such a two-way relationship is tilted heavily in favour of the government. It acts through its various ministries and agencies, both at the central and state levels, to regulate the activities of business.

In a previous sub-section, you have seen how the economic environment is undergoing a sea change due to the liberalisation and the reforms process. In fact, one of the significant manifestations of such a process is the decrease in the intensity of regulation and control by the government over industry. This is happening slowly but surely. Several of the control measures that were operating earlier have been done away with. Yet several remain and with it, the regulatory role of the government lingers on.

Owing to the controls exercised through the regulatory mechanism, the regulatory environment is one of the important sectors that any organisation has to take into consideration for its strategic management.

Here are a few instances of the impact of the regulatory environment on companies:

- India shares the dubious distinction of being an over-regulated but under-governed country along with several others. PriceWaterHouseCoopers, the consultancy organisation that conducts an annual survey of CEOs, reports on their concerns and confidence in the business environment around the world. In its 10^{th} survey in 2007, it reported that the highest concern of the CEOs is over-regulation of business—even more than that for terrorism or scarcity of oil. The situation in India is symptomatic: there are nearly 2500 central laws and 30000 state laws in force, in addition to a number of subordinate legislation. For instance, there are as many as 45 Central Acts directly pertaining to labour besides several that are of indirect relevance. Many of these, such as the Weekly Holiday Act of 1942 or Shops and Establishment Act of 1948, have provisions that are inconsistent with the requirements of the modern economy. Besides the laws, there are the rules and regulations and procedures to follow and myriad permissions to be secured from a number of government authorities. Naturally, foreign companies are concerned about entering into agreements with Indian companies fearing that the contract enforcement is likely to be weak. Local business persons, especially entrepreneurs are also discouraged by over-regulation. Procedural implementation of strategies is often considered a nightmare.
- Judicial review or pejoratively, judicial activism, is a controversial phenomenon with opposing views, held by those who indulge in it and those who are affected by it. When you hear of a court pulling up a business unit for polluting its environment, it is a case of judicial activism. Rising tendency in India for judicial activism, especially by the Supreme Court of India, has led to its opposition by legislators and bureaucrats as they perceive it to be a transgression of the court's authority and impinging upon theirs. Strategic planning of business firms has to be cognizant of this regulatory environmental trend as, like a double-edged sword, it can cut both ways in favour and against their vital business interests.
- The regulatory environment for the foreign direct investment in India has been progressively liberalised during the past decade. Most restrictions on foreign investment have been removed and the simplifica-

tion of procedures is proceeding quickly. Foreign companies can invest freely in India, with a few exceptions. The approval for FDI is automatic in most cases. There are a few cases where investment ceilings remain but are likely to be relaxed further. For instance, FDI restriction in the retail industry is limited up to 51 per cent, but only if the retail operations are restricted to a single brand. FDI in retail could still come in without this restriction, provided this is used only for sale to other shops, but not directly to the consumers. Foreign retail companies can come in either through franchisee arrangements or in partnership with Indian companies. Another case is of the insurance industry. The present policy allows FDI in insurance companies only up to 26 per cent, which is likely to go up to 49 per cent. Such regulatory provisions have profound implications for existing companies and those planning to enter that industry.

- Gurcharan Das quotes a study by Freddie Mehta of 50 leading Indian companies in which he studied the chairmen's statements for three years in succession. In the statements of 1993-94, there was a specific mention of starting up a finance company in a majority of the chairmen's statements; the 1994-95 chairmen's speeches proclaimed their interest in the power sector; and the 1995-96 reports showed a desire among many companies to enter telecommunications. Was this just a coincidence? Quite likely, the chairmen were responding to the favourable regulatory environment created by encouraging government policies pertaining to the three industries in those three years.[7]

There are a number of legislative and administrative controls over business that are exercised through the regulatory mechanism. Some of the important areas of regulation are:

1. Industrial policy making, development and regulation and licensing
2. Regulation over corporate management and avoidance of industrial sickness
3. Regulation of monopolies and restrictive trade practices
4. Regulation of foreign trade, capital, technology and exchange
5. Regulation of money and capital markets and stock exchanges
6. Regulation of pricing and distribution
7. Commodity exchange and its regulation
8. Protection of patents and trademarks
9. Regulation through environmental and consumer protection
10. Regulation of employment conditions through labour legislation; welfare, social security and safety measures; maintenance of industrial relations; trade unionism; and workers' participation in management.

During the course of its activities, the industry interacts with the government in innumerable ways. In fact, the industry often blames the government for exercising excessive control through a plethora of rules and regulations. On the other hand, the government holds the industry responsible for many of the economic problems, for not working within the framework of national priorities and for failing to live up to the expectations of the society in general. Such a love-hate relationship between the industry and the government is clearly evident when managers and bureaucrats interact with each other. Exhibit 3.9 presents an interesting and perceptive insight into the differing views and attitudes of managers and bureaucrats.

Exhibit 3.9 Why the industry and government mistrust each other?

S.K. Bhattacharya, an eminent management consultant, made a perceptive analysis of the mistrust that exists between the Industry and government and made suggestions to bridge the gap in such a relationship. The differing perceptions that the Industry and the government have, could be largely attributed to what managers and bureaucrats feel about each other.

What managers feel	What bureaucrats feel
Bureaucrats are procedure-bound, precedent-oriented, unable to look at the overall situation independently and lack pragmatism.	Managers are of low intellectual calibre, selfish, unaware of macro-level policy matters and do not contribute significantly to economic development.
Bureaucrats are easy-going, lack motivation and drive, are more concerned about wielding power and playing politics.	Managers are snobbish, adopt an exaggeratedly high-style living and indulge in conspicuous consumption.
Bureaucrats do not understand the value of time, delay decisions, play into the hands of their political masters.	Managers are unprincipled, manipulative and try to use unfair means to gain benefits.
Bureaucrats fail to appreciate that industry has to be viable in the short-run to achieve long-term national objectives. They use state involvement and interventions as levers for exercising power and patronage.	Managers do not understand the political-administrative equations on which the industry and business-related decisions rest.

Bhattacharya further suggested that the reality is far removed from what the managers and bureaucrats feel about each other. He advocated that a consultative and collaborative approach should be adopted by the government through open communication, while the industry should adopt a supportive attitude by recognising that it is the government's prerogative to regulate and guide industrial and economic development in the light of national priorities. In retrospect (Bhattacharya's perception is based on the situation in the late 1980s), it can be seen that welcome changes have taken place. The bureaucrats are no longer as secretive and industrialists adopt quite a supportive attitude to governmental initiatives. Yet, attitudes are difficult to alter and take a long time to change. What Bhattacharya perceived nearly twenty years ago could still be relevant, especially in relation to lower-level bureaucrats and industrialists working at places away from the industrial centres.

Sources: Adapted from "The industry-government hiatus", *Business World*, Mar. 28-Apr.10, 1988, pp.20-21; "Bridging the gap in government-industry relationship", *Business World*, Apr.25-May 8, 1988, pp.39-40. Both the articles have been written by S.K. Bhattacharya.

Socio-cultural Environment

The socio-cultural environment consists of factors related to human relationships within the society, the development, forms and functions of such a relationship and learned and shared behaviour of groups of human beings having a bearing on the business of an organisation.

Some of the important factors and influences operating in the social environment are:

1. Demographic characteristics, such as population, its density and distribution, changes in population and age composition, inter-state migration and rural-urban mobility and income distribution.
2. Socio-cultural concerns such as environmental pollution, consumerism, corruption, use of mass media and the role of business in society.
3. Socio-cultural attitudes and values, such as expectation of society from business, social customs, beliefs, rituals and practices, changing lifestyle patterns and materialism.
4. Family structure and changes in it, attitude towards and within the family and family values.
5. Role and position of men, women, children, adolescents and aged in family and society.
6. Educational levels, awareness and consciousness of rights, work ethic of the members of the society and attitude towards minority and disadvantaged groups.

The socio-cultural environment primarily affects the strategic management process within the organisation in the areas of mission and objective-setting and decisions related to products and markets. Strategists, in the Indian context, do not seem to be fully aware of the impact of the socio-cultural environment on business or they are so preoccupied with other environmental influences that they do not give a high priority to socio-cultural factors. One reason for such a lack of interest could be the nature of socio-cultural influences. The socio-cultural changes take place very slowly and do not seem to have an immediate and direct impact on short-term strategic decisions. Nevertheless, some socio-cultural changes are too prominent to be ignored. One such change in the India context is the emergence of the mass media as a powerful socio-economic force. Exhibit 3.10 provides some understanding of the social impact of the media and its implications for business and industry in India.

Exhibit 3.10 Social impact of media and its implications for business and industry

The eminent sociologist, Emile Durkheim made two observations: as society grows more complex, specialised institutions serving specialised social needs develop and proliferate to maintain social stability; and new institutional forms displace old ones only when the old ones no longer manage to serve their original purposes effectively.

The evolving Indian society offers an interesting setting of how the mass media have emerged as a social institution, fulfilling many of the functions that were no longer or inadequately being served by traditional social institutions such as the family or the school.

Mass media is powerful in the sense that people look to it for direction for values and rules of behaviour. Media supply people with membership in groups. People arrange their daily routines around media activities: the morning newspaper, the afternoons for checking E-mails and evening for prime-time television serials. Media have a prominent impact on the life-style of people, dictating their daily activities, jargon or fashion. At tragic or exciting times, media serves as a comforter and facilitator. People turn to the media for information on railway accidents or air crashes; they put on the TVs to view and hear about the latest election trends. Media performs an educational role too. The Internet is an instantaneous source of information. People turn to it for myriad purposes: knowledge, entertainment, news or making new friends. Governments and politicians realise the power of the media in shaping public opinion. Being media-savvy is an essential qualification for political parties' spokespersons.

There is a big danger in investing the mass media with so much power. In the Western context, where media was never intended as a social institution, the profit motive is the primary purpose. When private interests override public good, audience ratings may be more important than the programme content. Titillation of senses through excessive sex and violence become essential elements in the '*masala*' to attract audiences and increase advertising exposure for sponsors.

The global trends in media have not left India untouched. The spread of the television network, private television channels, broadband and telecommunications are some of these popular trends. Other trends in the making-digitisation, miniaturisation, higher bandwidth enabling transmission of images and colour, allowing greater use of portability and the integration of converging technologies—are leading to decreasing costs and greater user-friendliness of multimedia communications and services. It is to be observed that the social impact of media is an active process that involves those who create the information and those who use it. The diffusion of each new communication medium is based on the progressive development of an effective use that may be significantly different from its anticipated use. Thus, the use of Internet for pornography or mobile phones for blackmailing and bomb blasts is unintended usage of technology. Secret filming of corruption or sex scandals by some private television channels in India may be another such destructive trend that serves little social purpose. The corporate sector primarily views the media as a means for advertising and promotion. Yet, media has much wider implications for business and industry than being just a medium for marketing communication. There is research evidence to show that countries with more open economies tend to have higher penetration rates for mass media. Indian business and industry continually need to look beyond the traditional uses of media.

Sources: Adapted from A. Silverblatt, "Media as Social Institution", *The American Behavioral Scientist*, Thousand Oaks, Sep 2004. Vol.48, Issue 1, pp. 35–42; F. Yang & J. Shanahan, "Economic openness and media penetration", *Communication Research*, Beverly Hills, Oct 2003, Vol.30, Issue 5, pp. 557; V. Manthripragada, "Social Impact of Media's Exposes" *http://news.indiainfo.com/publicopinion/medias-expose.html*, Retrieved February 4, 2007.

Here are a few examples of the impact of socio-cultural environment on business:

- India's estimated population of about 1.1 billion, in 2005, conceals several longer-term trends. One of them relates to the gender disparity: the relative position of development of women with respect to that of men. Overall, population growth rates have declined to 1.5 per cent per year. Fertility rates in India have been declining and now stand at 3.4 births per woman. The illiteracy rates among women also continue to drop. Yet, issues such as gender and reproductive rights, gender-based violence, men's involvement in childcare and quality of childcare, increasingly, are being discussed as part of the policy and programme debate. The gender-related development index, a part of the United Nation's Human Development Index, reveals a dismal picture for India as it has a ranking of 122 among 136 countries, indicating that on indices such as life expectancy at birth, adult literacy rate and enrolment in educational institutions, women fare worse than men. Countries smaller and less-endowed than India such as Angola, Congo, Iraq, Lesotho and Nepal surpass it on some of these indices. The gender disparity has serious implications for the corporate sector as women have a significant position as potential consumers and employees.
- Demographers are divided over the issue whether India faces a demographic dividend or a demographic disaster. Demographic dividend is an advantage arising out of increasing population in the working age groups, typically in the 15 to 64-age groups. Seen from this perspective, India is and is likely to remain one of the youngest countries in the world. In 2000, a third of Indians were below 15 years and nearly 20 per cent were in the 15 – 24 age-group. In 2020, the average Indian would only be 29 years old compared to the Chinese and American of 37 years, European of 45 years and Japanese of 48 years. On the other hand, a large young population can also be viewed as a demographic disaster. India is likely to face problems of social instability, unemployment and underemployment, crisis of oversupply of labour accentuated by increasing industrial productivity—factors that could lead to a rapid fall in economic growth. Depending on the perspective, demographics in India could be an opportunity as well as a threat for Indian organisations.
- India is a diverse civilisation with a large variety of castes. The Anthropological Survey of India in 1941 (caste is not identified now), identified more than 4600 *jatis* or castes that make up the Indian society. Identity assertion, social mobilisation, politicisation of caste and inter-caste tensions are some of the dominant socio-cultural features of the Indian society. Caste considerations have become so much a part of the national political discourse that they form an inalienable part of our social interactions. Business and industry is affected as the corporate culture within is largely a microcosm of the wider socio-cultural environment outside.

Supplier Environment (इण्डस्ट्री)

The supplier environment consists of factors related to the cost, reliability and availability of the factors of production or services that have an impact on the business of an organisation.

Some of the important factors and influences operating in the supplier environment are as follows:

1. Cost, availability and continuity of supply of raw materials, sub assemblies, parts and components.
2. Cost and availability of finance for implementing plans and projects.
3. Cost, reliability and availability of energy used in production.
4. Cost, availability and dependability of human resources.
5. Cost, availability and the existence of sources and means for supply of plants and machinery, spare parts and after-sale service.
6. Infrastructural support and ease of availability of the different factors of production, bargaining power of suppliers and existence of substitutes.

The supplier environment occupies a dominant position in strategy formulation because of the fact that India is a developing country, having problems of scarcity of capital and appropriate raw material resources. Unlike some of the western nations and Japan, the reliability of supply is very low, causing companies to devote a lot of attention to and energy in, maintaining continuity of supply. Almost all annual company reports lament the shortage of power and cite the high costs of raw materials as the reason for low profitability.

Here are a few illustrations to highlight the importance of the supplier environment:

- Weak infrastructure is often mentioned as one of the reasons for holding back faster economic growth in India. Water availability, electricity and transport, constitute the three weakest components of Indian infrastructure. India, with 20% of global population, receives only 4% of the world's annual supply of fresh water. Besides the substantial household consumption, industry requires tremendous amounts of water. Availability, distribution and pricing of water are potent socio-economic issues in India. Lack of potable water as well as water for industrial use is a serious bottleneck in the supplier environment in India. No wonder, Chennai – the automobile capital of India – suffers so much from inadequate water availability. The bottled water industry has an opportunity where clean, drinking water is a rare commodity.
- Power shortage affects industry considerably. The seven most energy intensive popular industries in India are aluminium, cement, fertilisers, petrochemicals, pulp and paper, refineries and steel. Considering the case of mini-steel plants, we find that their viability is critically dependent on the cost and availability of power, as nearly 15 per cent of the total manufacturing costs are accounted for by power. It is mainly used in electric arc furnaces for both melting and refining scrap for steel manufacturing. Alternative sources of power supply like generating sets are not economical to use in mini-steel plants as large volumes of power are required.
- Among infrastructural inputs, road transport is one of the most important in a developing economy of a large country like India. But there are many problems faced by this sector. For instance, losses owing to high taxes on vehicles, tyres, diesel and spare parts, poor conditions of roads, delay in transit and fuel wastage due to bad condition of roads are estimated to be colossal. These problems have a negative impact on the cost and timely delivery of raw materials and other inputs to the industry.
- There are an estimated 500 million workers in India, out of whom just 7 per cent are in the formal or organised sector. Official statistics put the unemployment rate at around 10 per cent but unofficial estimates suggest it could be as high as 20 per cent. Such dismal statistics do not seem to matter much for industries such as IT or financial services that have witnessed high employment growth rates. At the same time, these industries have faced challenges in hiring the right type of people. Engineers have been attracted to the IT industry in large numbers, making it difficult for the manufacturing and construction industries to find skilled people. IT industry companies such as Wipro and Infosys have had to rely on innovative plans such as hiring science graduates in large numbers, at modest salaries and training them in IT. Retailing and construction industries, that are witnessing a boom, also face similar environmental challenges. The days when more qualified people could be hired by Indian companies for lower-skill jobs seem to be getting over. Kiran Karnik, the Nasscom president, describes the paradox of the Indian labour market nicely: 'While some young men, on the brink of starvation, desperately look for work, employers elsewhere look - with almost similar desperation - for appropriate people to fill tens of thousands of vacancies.'[8]

Technological Environment

The technological environment consists of those factors related to knowledge applied and the material and machines used in the production of goods and services that have an impact on the business of an organisation.

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Some of the important factors and influences operating in the technological environment are as follows:

1. Sources of technology like company sources, external sources and foreign sources; cost of technology acquisition; collaboration in and transfer of, technology.
2. Technological development, stages of development, change and rate of change of technology and research and development.
3. Impact of technology on human beings, the man-machine system and the environmental effects of technology.
4. Communication and infrastructural technology in management.

Strategists can ill afford to ignore the technological environment, as technology, besides customer groups and customer functions, defines the business of their organisations. The strategic implication of technological change, according to Boris Petrov, are three: it can change relative competitive cost positions within a business; it can create new markets and new business segments; and it can collapse or merge previously independent businesses by reducing or eliminating their segment cost barriers.[9]

In the Indian context, we find that the state of technological development varies among different sectors of the industry. Generally, it is felt that the technology used depends on a number of factors such as cost and availability of technology, nature of competition, relevance to customer needs and government policy. At the macro-level, foreign technical collaborations are popular in India but subjected to strict regulation regarding indigenisation, impact on local technological development and employment, export commitments, etc. Technology is often used as a strategic weapon by companies operating in a highly competitive environment.

A few specific examples of the factors operating in the technological environment and their impact on business are provided here:

- An interesting mega trend in technological environment is that of knowledge-based industries. The emphasis in these industries is not on physical or tangible assets, but on intangible assets such as knowledge. Thus, the value of intellectual capital determines the rank and competitiveness of an industry or company. Intellectual capital is based on factors such as research and development capabilities, patents, proprietary technologies, databases, brands and relationships with customers and business partners. At present, there is inadequate appreciation of this technological trend in India and the corporate sector needs to internalise this fact by reorienting their focus from merely products and markets to the technologies that work behind them.
- It has become a cliché to say that the Internet has revolutionised the way business is done. Little is the realisation that the technology behind the Internet has virtually taken the enterprise information system within the reach of the customer. The enterprise information system can be linked to the customer through the call centres, Internet and mobile devices. This is the customer relationship management system or CRM. Customisation and greater interactivity is possible through the CRM systems, making process technology undergo profound changes. There are several service industries that are deeply affected by CRM. Among these are financial services, including banking and insurance, travel, transportation and utilities. Manufacturing industries too benefit by using it for retailing as well as for providing after-sales support. The CRM products and services itself is a sunrise industry.
- Traditionally, technology transfer in the Indian context meant transfer of know-how through payment of royalty and fee or technology imports through import of plant and machinery and turnkey projects. Increasingly, technology transfer is now associated with foreign direct investment. This is an indication of greater confidence of international technology suppliers in the technological capacity of India as well as their self-enlightened interest in being partners in the fruits of the technological developments of India. Many Indian companies have been beneficiaries of this new emphasis in technology transfer, especially in the information technology industry. This also partly accounts for the number of foreign companies building their R& D bases in India or Indian companies acquiring R&D facilities abroad.