We will adopt an eight-way classification of environmental factors and present a discussion of each of them in alphabetic order so as to emphasise the point that there is lack of information at present regarding the relative importance placed on each of them by Indian organisations.

3.2 ENVIRONMENTAL SECTORS

The classification of the general environment into sectors helps an organisation to cope with its complexity, comprehend the different influences operating and relating the environmental changes to its strategic management process. Different bases for classification have been adopted by different authors, but the basis itself is not as important as the fact that all the relevant factors in the environment have to be considered. Depending on a variety of factors such as the size of the organisation, level and scope of activities, geographical spread of markets, nature of product, type of technology used and managerial philosophy, an organisation may divide its environment into sectors capable of being analysed conveniently. In this book, we are using an eight-category classification of the environment. These eight sectors of the environment are: the economic, international, market, political, regulatory, socio-cultural, supplier and technological sectors. We will now take up each of these sectors for discussion.

Economic Environment

The economic environment consists of macro-level factors related to the means of production and distribution of wealth that have an impact on the business of an organisation.

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

1. The economic stage in which a country exists at a given point of time.
2. The economic structure adopted, such as a capitalistic, socialistic or mixed economy
3. Economic policies such as industrial, monetary and fiscal policies.
4. Economic planning, such as five-year plans, annual budgets, etc.
5. Economic indices like national income, distribution of income, rate and growth of GNP, per capita income, disposable personal income, rate of savings and investments, value of exports and imports, the balance of payments, etc.
6. Infrastructural factors such as financial institutions, banks, modes of transportation and communication facilities, etc.

Strategists are acutely aware of the importance and impact of the economic environment on their organisations. Almost all annual company reports presented by the Chairmen devote attention to the general economic environment prevailing in the country and an assessment of its impact on their companies.

We provide here, several examples of the factors and influences operating in the Indian economic environment that have had a far-reaching impact on all business organisations.

- It is common to read or hear that India and China are the two Asian economic dragon and elephant respectively, who are set to share with the United States the distinction of being the world's economic powerhouses. By 2025, the Indian economy is projected to be about 60 per cent of the size of the U.S. economy. By 2035, the world economy is likely to be tripolar with U.S., China and India being the three leaders. India, which is now the fourth largest economy in terms of purchasing power parity, will overtake Japan and become the third major economic power within 10 years. The Indian economy will also surpass that of the European Union in terms of growth. But there are significant challenges ahead too. Rising economic disparities, monsoon-dependent agricultural sector, inadequate socio-economic reforms, institutional and infrastructure bottlenecks and a volatile stock market are seen as factors holding back a full-scale economic blossoming of India. The Indian organisations, in their strategic planning, have to be acutely aware of the diverse economic scenario unfolding before them.

- India's emerging image as a global economic force sits uncomfortably with the harsh reality of the status of its human development. The euphoria regarding the impressive economic growth in India pales into insignificance when one looks at the poverty situation in India. Among the several disparities that exist, economic disparity poses the most severe challenge. While measures for poverty vary and there is no fixed basis for evaluating or comparing poverty, India's relative global ranking is 55 out of 102 countries. The poverty rate fell to around 22 per cent in 2004-05 as compared to 50 per cent in 1977- 78. While poverty rates have been falling and an estimated 200 million Indians joined the middle class, yet nearly 300 million still exist in extreme poverty. Large-scale severe poverty is concentrated in the five 'BIMARU' states of Bihar, Madhya Pradesh, Rajasthan, Uttar Pradesh and Orissa. Unfortunately, these poorer states also have larger populations that are growing faster. Incomes in urban India are four times higher than that of rural areas. The outcomes of poverty are social imbalances leading to social strife that is not considered good for investment. No nation can expect to achieve a developed status while a major part of its population lives in poverty. The corporate sector cannot simply afford to wash its hands off and cater only to the economically better sections of the society. It has to get involved in various ways to tackle this significant economic issue having severe social implications.
- Economic slowdowns result in lesser spending by consumers. But is the converse also true? This question has confounded the corporate sector and marketers more than the economists. Surveys of consumer behaviour are unambiguous on one point: Indian consumers are discerning spenders and try to maximise value from spending money. They are not swayed by hard-sell and exaggeration, look for tangible payoffs and do not rely excessively on brand image alone. Companies, especially in the FMCG sector, have realised this and have been responding with alacrity. Colour TVs, mobile phones, personal computers, airlines, hotels and several other industries have faced the onslaught of liberalisation and the ensuing competition with a range of innovative marketing strategies.
- Contrary to common perception, the economic growth in India has mainly been fuelled by the growth in domestic savings and not foreign investment. Such savings by households are mainly for education, old-age security and health-related concerns. The country does not have, or maybe cannot afford to have, a generalised social security system. Savings in India have been traditionally invested in fixed assets and precious metals. Gold, for instance, is perceived as insurance or a pension product. There has been little trust among the general public for private investments. The share of savings entrusted to the government has been channelled through post offices and banks. However, during the 1980s, the investors started turning to other avenues like stock markets and company deposits. Progressive changes in economic and fiscal policies have led to many developments. Pension reforms could lead to unbundling of huge resources for corporate investment. Leasing and financing companies, public sector bonds, mutual funds, venture capital business, new financial instruments, entry of banks and financial institutions in stock trading are some of these developments which provide the resources for capital markets and project financing.

Exhibit 3.6 presents basic information about the 'LPG' of an economy, by what is meant liberalisation, privatisation and globalisation. You must have often heard or read about these terms. This exhibit offers an explanatory view of the terms much used but probably not correctly understood. Liberalisation, privatisation and globalisation are essential features of the economic environment of any country. No other development has as much affected the business environment in India as these have. Business firms are still in the process of coming to terms with the total impact that these developments are having on them. In fact, these three developments have created the need for a more focussed strategic management by Indian companies. Since these terms are quite significant, they will often be referred to further in the text, in different contexts.

Exhibit 3.6 The 'LPG' of the economic environment

By 'LPG', as colourfully stated by the once-redoubtable former chief election commissioner T. N. Seshan, is meant liberalisation, privatisation and globalisation. You often hear these terms and might have an idea of what they mean. Let us see the meaning of these terms in the context of the Indian economic environment.

Liberalisation refers to a set of measures and reforms aimed at the creation of an open economy. Broadly, the economic policies talk of liberalisation measures for industry and trade and reforms related to the macro aspects and structural adjustments.

Liberalisation measures encompass the following:

- Industrial policies related to liberalisation of licensing of companies, foreign exchange and its regulation, monopolies and restrictive trade practices and the public sector reforms.
- Trade policies related to liberalisation through encouragement of foreign investments, opening of exports and imports sectors, lowering of import tariffs, abolition of import licensing and convertibility of rupee.

The reforms process includes:

- Fiscal (say, reduction of fiscal deficit and reform of taxation system), monetary (say, lowering interest rates and controlling inflation), banking sector (say, freeing interest and lending rates and entry of private banks) and capital market reforms (say, entry of private sector mutual funds and allowing foreign institutional investors in capital markets).
- Structural adjustments related to phasing out of subsidies and price controls, disinvestment in public sector units and framing of an exit policy for industry.

The ongoing reforms process, often referred to as second-generation reforms, include further financial sector reforms, several legislative actions such as amendments to the Companies' Act, setting up of Competition Commission and tax reforms related to value-added tax and stricter compliance.

Privatisation refers to the process of selling of state-owned enterprises (or public sector units as we call them) to private individuals or corporations. In a limited sense, it also means the hiring of a private business to provide products and services previously offered by a government agency. Liberalisation in the shape of public sector reforms, for example, entails disinvestment of government equity in public sector units, resulting in their privatisation.

Globalisation means the integration of a country's economy with the global economy. This is done in several ways like enhancing the inward flow of foreign funds and technology, opening up the system of trade and investments and, in general, the internationalisation of markets, production and corporations. Operationally, it means that a company that could earlier be successful by focussing only on making and selling goods and services within its national boundaries, now expands its horizon to the world.

You will note that the three terms are not mutually exclusive in terms of their coverage. These should not be viewed in watertight compartments. Instead, these are to be seen as a part of an elaborate economic philosophy of focussing on entrepreneurialism or individual initiative as the vehicle for economic growth, development and progress, as opposed to state or government-led economic development.

International Environment

The international (or global) environment consists of all those factors that operate at the transnational, cross cultural and across-the-border level, having an impact on the business of an organisation.

Some of the important factors and influences operating in the international environment are as below.

1. Globalisation, its process, content and direction
2. Global economic forces, organisations, blocks and forums
3. Global trade and commerce, its process and trends
4. Global financial system, sources of financing and accounting standards
5. Geopolitical situation, equations, alliances and strategic interests of nations

6. Global demographic patterns and shifts
7. Global human resource institutions, availability, nature and quality of skills and expertise, mobility of labour and other skilled personnel
8. Global information system, communication networks and media
9. Global technological and quality systems and standards
10. Global markets and competitiveness
11. Global legal system, adjudication and arbitration mechanisms
12. Globalisation of management and allied disciplines and diffusion of management techniques in industry

The international environment constitutes a special class of the environmental sector. While the other seven sectors we discuss here, are largely limited and exclusive in nature, the international environment encompasses all the sectors albeit in the global context. In other words, what we mean to say is that while the political environment, for instance, within a country, could consist of certain factors related to national politics, the international environment would also have a geopolitical component including the political factors and influences at the global level.

Here are three instances to exemplify the significance of international environment for Indian business and industry.

- China number one, India number two: this is what we often get to hear in terms of economic growth. Comparison in the context of international environment is in order. China's economy is twice that of India. China has enjoyed a long term GDP growth rate of 9 to 10 per cent versus India's 6 to 7 per cent and China's per capita income is more than double that of India. Moreover, China exports 6 times what India does. Not only are the two Asian neighbours contenders for the number one position, they are competitors in various industries internationally too. Yet, there are pockets of excellence for India that other industries need to replicate. The Indian pharmaceuticals industry is one such example where it is far ahead of its Chinese counterpart in terms of developing international marketing. Indian companies such as Ranbaxy and Dr. Reddy's sell widely in the U.S., Europe, Africa and South America. Quite a few have factories in the U.S. and Europe too. This has significance for strategic planning for the existing and prospective Indian multinational companies.
- Increasing labour mobility is a significant international environmental trend presently. Despite better technology reducing the need for labour, it still remains the most important factor of production. Internationalisation of markets and production requires a frequent movement of labour, especially high-skill, better qualified people to move frequently across borders. Demographic changes of falling fertility rates in developed regions and countries such as European Union, Japan and Singapore mean that more influx of skilled people would be required. Traditionally and historically, India has been a supplier of labour to the world. This includes emigration of highly educated people causing a phenomenon called 'brain drain'. Increasingly, however, there has been phenomenon of 'brain gain', whereby qualified Indians are returning home to work or set up their own companies. Indian industry and companies have to take into account these divergent trends related to labour mobility in the international environment.
- Among the various external financial sources, the equity market has constituted an important source of financing for Indian companies, followed by bank loans and loans from financial institutions. The start of India's economic reforms in the early 1990s led to a flood of overseas equity issues via American and global depositary receipts. Indian companies now are increasingly seeking cheaper and quicker loans from the international financial markets where access has been made easier by regulatory reforms of streamlined and liberalised external commercial borrowing procedures and policies. Typically, Indian companies searching for funds overseas are drawn from a range of industries from automotive to financial and some sectors like infrastructure having deep funding requirements. Reliance being the first to enter the US private debt placement market and Tata Power, India's largest private-sector power pro-

ducer, raising foreign currency convertible bond, signify an increasing trend of international financing. These trends suggest that there will be many more large transactions for the bigger Indian companies that are growing in size and ambition and will continue to look at foreign financing to fuel growth, both for capacity expansion and acquisitions, depending on constraints to international financing such as India's sovereign credit rating, exchange-rate risk and stringency of compliance requirements.

Earlier, in Exhibit 3.5, we observed that the international environment used to be considered as of low significance by Indian companies. We also noted that the research studies on environmental factors considered by Indian companies in strategic planning quoted in that exhibit were conducted in the 1980s and the early-1990s. There has been a sea-change, starting in the latter half of the 1990s and continuing at present, necessitating Indian companies to increasingly think of aligning themselves to the emerging global economic order. Evidence is found in more frequent references to global standards by exporting companies, eagerness to adopt global business practices and realisation of the impact that international environment is likely to have on Indian business and industry. The industry federations such as the Confederation of Indian Industry have increasingly been drawing the attention of their constituents to the international environment and the impact it is likely to have on them. Progressive companies are also reported to have set up special cells and appointed managers to help them in analysing the impact of the international environment on their businesses. Of all the aspects of global economic order, it is the World Trade Organisation (WTO) that arouses a heightened interest among the Indian corporate sector. WTO is among the trilogy of the influential international institutions, the other two being the International Bank for Reconstruction and Development (IBRD) popularly known as the World Bank and the International Monetary Fund (IMF). Exhibit 3.7 presents a brief description of the WTO and an assessment of its impact on Indian business and industry.

Exhibit 3.7 WTO and its relevance as a significant international environment factor for Indian companies

The World Trade Organisation (WTO) claims to be 'the only global international organisation dealing with the rules of trade between nations.' The members negotiate and sign the agreements that may be ratified by their parliaments. The goal of the WTO is to help producers of goods and services, exporters and importers conduct their business.

The WTO was founded on January 1, 1995 as a successor to the General Agreement on Trade and Tariff (GATT) by the Uruguay round of negotiations. While GATT focussed mainly on trade in goods, the WTO covers cross-border trade in services and ideas and the movement of personnel. It has a membership of 150 countries as in January 2007.

The functions of the WTO are:

- Administering WTO trade agreements
- Forum for trade negotiations
- Handling trade disputes
- Monitoring national trade policies
- Technical assistance and training for developing countries
- Cooperation with other international organisations

The WTO functions on the basic premise that free trade among nations leads to economic growth. Liberal trade policies that allow the unrestricted flow of goods and services help in honing competition, motivating innovation and nurturing success. Its wide-ranging activities relate to agriculture, banking, food sanitation, government purchases, industrial standards and product safety, intellectual property, telecommunications, textiles and clothing, etc.

Criticism of the WTO rests on several allegations that it considers as misconceptions arising out of misunderstanding. WTO is now under fire for failing to take into account labour standards or the environmental impact of

trade. Besides, it is alleged that its efforts to break down global trade barriers are faltering. The more serious criticism relates to it being a tool in the hands of powerful multinational corporations, dictating policy to sovereign nations and prescribing actions that lead to destroying jobs and increasing poverty. WTO addresses many of these criticisms on its website at *http://www.wto.org/english/*.

India is a founder member of the GATT and its successor, the WTO. India's participation aims at the development of an increasingly rule based system in the governance of international trade, so as to ensure more stability and predictability that ultimately would lead to more trade and prosperity for itself and other member-nations. India has benefited by the provisions of the WTO such as by being named the most favoured nation principle and enabling of access to a large number of importing countries. India is also a part of the group of developing nations that seek to secure equity in access to the markets in developed countries and protecting its vital interests in agriculture. Information related to India's relationship with the WTO is available with the Ministry of Commerce at *http://commerce.nic.in/*.

There are important implications of the WTO regulations for strategic management for companies in all industries that come within its purview. Among them are the pharmaceuticals (e.g. patenting), IT (e.g. outsourcing), agriculture (food safety and processed food exports), textiles and garments (dismantling of quotas and export competitiveness) and service sector (e.g. insurance, banking and accounting).

Market Environment (Industry Env.)

The market environment consists of factors related to the groups and other organisations that compete with and have an impact on an organisation's markets and business.

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

1. Customer or client factors such as the needs, preferences, perceptions, attitudes, values, bargaining power, buying behaviour and satisfaction of customers.
2. Product factors such as the demand, image, features, utility, function, design, life cycle, price, promotion, distribution, differentiation and availability of substitutes of products or services.
3. Marketing intermediary factors such as levels and quality of customer service, middlemen, distribution channels, logistics, costs, delivery systems and financial intermediaries.
4. Competitor-related factors such as the different types of competitors, entry and exit of major competitors, nature of competition and relative strategic position of major competitors.

The market environment largely depends on the type of industry structure. In monopolies and oligopolies, the concern for market environment is lesser than what it is under pure competition. In a controlled economy, like that of India, public utilities like electricity boards and most public sector companies such as petrol and cooking gas companies operate in a protected environment.

In recent years, the government policies have gradually moved towards allowing competition within the public sector such as between banks and also between the public and private sector companies like in the case of television and computers. The market environment has assumed a greater importance in strategic management as the increasing pace of liberalisation has accentuated its importance. In fact, as Exhibit 3.5 shows, it is the most important sector for companies in India.

Here are several examples to show how the market environment affects and is taken into consideration by the companies.

- Growing international trade, massive investment in infrastructure, increasing levels of disposable income and strong manufacturing and retail sectors have combined to produce a dynamic market environment in India. Customers and their needs have been featuring more prominently in the business strategies of firms in several industries. Other marketing-related actions include investments in retail networks, increasing opportunities for customer interactions, improving customer service, customer-focussed advertising, demonstrating a more visible presence and improving the overall customer experience. No

wonder, India is considered to be one of the best growth opportunities for several industries in the developing world.

- There was a time when the automobile industry hardly seemed to care about its customers. The few companies that existed did so in a sellers market and customers had to wait for a long time in order to buy a car. Now the situation has changed to such an extent that companies carry unsold stocks, have to resort to various sales promotion measures and provide new customer services in order to compete in the market. Facilities such as 24-hour customer service, service set-ups on highways, mobile pollution checking units, mobile service-units facility at service stations and customised training programmes for car mechanics are a common feature expected by the Indian automobile customer.
- There is a distinct trend of growing preference for natural products around the world and this trend is also prevalent within India. Eco-friendly products whether in agriculture, clothing, cosmetics or health care are seen as better substitutes for synthetic products. Issues such as organic produce, green technology, biodegradability, non-toxicity or sustainable agriculture are common in product and process technologies. Indian organisations seem to benefit owing to this trend of growing preference for natural products. *Ayurveda*, coir, herbal cosmetics and pesticide industry products are some of the sectors that benefit from customer preferences for natural products.
- Indians are paying increasingly greater attention to personal grooming. Changing life styles, increasing disposable incomes, availability of local and international brands, influence of satellite television and better awareness of global brands are some of the major factors that have led to an increasing demand for cosmetics. The cosmetics and personal care industry has been growing at a high rate during the last few years. With the demand for cosmetics on the rise and opening of the market to foreign companies, there is increasing competition offering greater product choice and availability to the fashion-conscious India women and men in urban as well as suburban areas.

The market environment is one of the most dynamic sectors of the environment. Indian marketers are facing a daunting challenge in coming to terms with the dynamism and the ever-changing nature of the Indian markets. Exhibit 3.8 offers an insight into the enigma that is the Indian market.

Exhibit 3.8 The enigma that is the Indian market

Ask any perceptive marketer about the biggest challenge in marketing in India and chances are that s/he would name it as the heterogeneity of the Indian market. At any given time, it is difficult to segment a market. It is even more difficult trying to segment a market as diverse and unpredictable as India's. The British Broadcasting Corporation's George Arney, who has been reporting on India for many years, wonders: how do you summarise a country which is home to one in six members of the human race, contains a third of the world's poorest people and yet has an increasingly consumer-oriented middle-class, twice the size of the population of Germany?

Market analysts keep struggling with data streaming out from various surveys, conducted by organisations such as the National Council of Applied Economic Research, National Sample Survey or the Indian Readership Survey. Marketing students quickly get to adopt the jargon of consumer behaviour: 'SEC C' consumer or 'aspiring' category consumer. The hype associated with India's economic emergence fuels the marketing strategists' imagination. Yet, the elusive Indian consuming class simply refuses to come within the grips of artful tactics and carefully designed strategies.

Estimates of the number of people in the consuming class vary widely. Invariably, they are quoted in a few hundred millions. Subsequently, several of these estimates prove to be inflated – based more on self-enlightened prophecies rather than market realities. So many MNCs with their bloodied noses can relate well to this. To them, the choice among being a volume-based, mass marketer or a premium, niche marketer has always been clear. They are there for big action in a huge marketplace. The only problem is there is hardly any homogeneity to base action upon. The Indian consuming class simply refuses to act like the consuming class in their own

countries does. There seems to be more emphasis on value for money, aversion to being pushed to buy, little liking for razzle-dazzle and the propensity to rely on reputation and trust in customer relationship.

Consumerism, or conspicuous consumption, is a double-edged sword. It fuels economic growth but also ignites social disparities and individual guilt. While it is a phenomenon experienced by industrial societies anywhere, in India it struggles valiantly with the strongly-entrenched social system and values. Take for example, the issue of debt-funded consumption. Is postponing consumption increasingly difficult for the Indian consumer than taking a loan to satisfy it quickly? Many marketers gleefully report that the Indian consumer has finally gotten over his aversion for loans or mortgages to buy items for immediate consumption. But is it really true? It is difficult to say. If one sees it through the prism of generational differences and social mobility, then it may be easier for a 23-year old man, earning a tidy amount out of his call centre job to go for instant gratification, but practically impossible for his father, running his truncated household with his meagre government pension, to do so. Who is the marketer really aiming at: the father or the son? They might represent the two sides of the Indian consuming class to the marketer, yet they emanate from the same social milieu.

On the one hand, undoubtedly, there is a huge untapped market for consumer goods out there in India. On the other, we are already witnessing signs of consumption-induced stress. The 'buy-nothing-day': a manifestation of fatigue by over-consumption and a social movement against mindless consumerism, observed around the world in November-end every year, was celebrated in Mumbai for the first time in 2006.

Just like the country, the consuming class in India is a bundle of contradictions. There are so many variables that make it difficult to measure, evaluate or compare data. Besides the usual marketing variables such as demography or lifestyle, the marketers have factors such as the region, caste and cultural diversity to contend with. Foreign, especially the American models of marketing research can offer useful insights, but cannot serve the purpose adequately of helping to have a realistic understanding of the Indian consumer behaviour. Indigenous theoretical models, understanding of markets grounded in social realities of India or simply, conservative trial-and-error may help to do so.

Despite the heterogeneity of the Indian market, it is prudent to realise that the Indian society is in a state of ferment. Several differences apparent today may dim in intensity or disappear totally tomorrow. This is likely to happen especially across the socio-economic classes where for instance, the elite classes behave in a similar way across regional or caste divides. The market environment is dynamic, complex and multifaceted. Its understanding and evaluation poses a difficult challenge not only to the marketer but to the strategic planner as well.

Political Environment

The political environment consists of factors related to management of public affairs and their impact on the business of an organisation.

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

1. The political system and its features like nature of the political system, ideological forces, political parties and centres of power.
2. The political structure, its goals and stability.
3. Political processes like operation of the party system, elections, funding of elections and legislation with respect to economic and industrial promotion and regulation.
4. Political philosophy, government's role in business, its policies and interventions in economic and business development.

India is a democratic country having a stable political system, where the government plays an active role as planner, promoter and regulator of economic activity. Businessmen, therefore, are conscious of the political environment that their organisations face. Most governmental decisions related to business are based on political considerations in line with the political philosophy followed by the ruling party at the Centre and the State levels.