

Strategic Management - The Competitive Edge
Professor R Srinivasan
Department of Management Studies
Indian Institute of Science Bengaluru
Lecture 11
Taxonomy of Company Environment

Welcome to this session. Before we go to environmental scanning let us look at the global issues with respect to BoDs for the 21st century. So what is happening in the Indian context? If you look at what is happening in the Indian context, firms are becoming increasingly global. So you are having firms, especially in the IT sector in the country which have gone global, so many of them.

Earlier we were looking at major IT Companies going global but now even medium size IT Companies have also gone global. So when this is the situation which is present in the country where firms are becoming increasingly global what is the impact on the BoD? So BoD's may need to become more international. There is no point in keeping on saying that we will look to our own people to be in the BoD. Exposure has to become international.

So there are so many international persons on the BoDs of many IT Companies and also manufacturing companies in India. They have been identified targets and they cater to those objectives. So they are also given responsibilities. BoDs may have to consider the interests of all key stakeholders and not just who wants stock while taking strategic decisions.

So the role of the BoD is becoming increasingly predominant now. Earlier we never used to know what is a BoD.

There are so many information sources available which give the names of the directors of the company. So, almost all the present day youngsters and the executives know about the BoD of their companies. Then the ability to articulate a strategic vision and motivate people to achieve it may become the most important characteristic required of a CEO.

So the role of the CEO in the present day context is becoming very critical, especially with respect to the software industry, where you are always pressured to give higher performances, year after year. When the pressure is so much the role of the CEO becomes even more critical. So he has to be a person who is not just articulating the strategic vision of the company but a person who has to deliver the strategic vision in the marketplace.

So this becomes one of the most important characteristics of the present day CEO. Name the

company, whether it is Cognizant, Wipro, or any, or Mindtree or any other company, the role of the CEO is becoming more and more predominant in the present day context because he has to really deliver on the strategic vision of the company. He has to both articulate the vision and also to deliver, both roles are required. So with this we will look at environmental analysis.

What is this environmental analysis for a company? This environmental analysis refers to a challenge posed by an unfavorable trend in the environment; so when you analyze the environment, especially the present day environment, every day appears to be a challenge, so this is what is happening in the present day markets.

So what is this environmental opportunity? An attractive arena for company's action where it would enjoy a competitive advantage. I gave you so many examples of competitive advantage in the earlier classes. We took the example of Gillette blade manufacturing company- its Mach 3 Triple Blade Technology. So many companies came with so many alternative technological approaches but Gillette stood its advantage in the marketplace.

So it not only had a competitive advantage, it also became a sustainable competitive advantage for the company. So even to this day if you look at this Gillette Mach 3, it is ruling the market place. So we we have to look at it from the mega angle. Mega is where you are looking at it from the global angle. Then the second one is where you look at it from the micro angle.

So many things which are of relevance to the company or which the company has to think about. From the micro environment you have to come down to relevant environment, so if you are looking at the taxonomy of an environment for a company you have to look at mega, micro and relevant environments.

So what is a mega environment? So now the present day, Indian context, we are hearing this term smart city project. What does it entitle? It entitles better connectivity, better connectivity with respect to transportation. So if you look at the type of infrastructure, which is coming up in the country, it compares favorably with developed countries. Take many of the national highways, which have been constructed.

Very broad roads, including service roads; of course, so many additional things need to be done and are being done, but the most important things which are coming up is the type of advances that have taken place with respect to this transportation capability. Then the mastery over energy that is uninterrupted energy, without voltage fluctuations. This is another aspect of a smart city project, which they want to bring in.

Third is ability to extend and control life and serviceability. So this is very important in the

present day context. So you cannot many times junk a product in a very short time. So you find out how the serviceability of the product and its life can be increased.

Best example of this could be your Toyota Corolla cars, cars from Toyota Company, the Corolla cars. Even though they are 20 years old they look brand new and give you a luxurious ride even to this day. Of course, with the petrol cost going up now, the cost of the ride has gone up, but the luxury of the car remains.

Ability to alter characteristics of materials- this is applicable to the super-fast trains or the bullet trains which are coming, which have already come in the western market and which are likely to come very soon to India. Then extension of man's sensory capabilities, that is all this nano, super conductivity, etc. Then growing mechanization of physical activities, artificial intelligence, robotics.

Then growing mechanization of intellectual processes. You are having machine learning, and machine learning is translated into market analytics, all those types of things which are happening in the mega environment.

So we can put all these under a figure. This figure is called the taxonomy of the firm's environment. So the bottom most here, this semicircle if you see, it represents the internal environment. The outermost represents the mega environment, what all we discussed till now. This second inner circle, semi-circle, refers to the micro environment.

Then there is a hatched portion, which is shown going up from the internal environment, the micro environment up to the top of the mega environment all this hatched portion represents what is called the relevant environment, relevant environment with respect to the company. Now we will look at the constituents of each of these environments. So if you take the mega environment you have these components coming in.

So what are the components of the mega environments? You have the regulatory that is more or less the legal, you have to conform to that. Then the political, what type of government is it. So all said and done with all its fallibilities, it looks democracy is a better form of government, where you can do business with.

Then the economic, then the technological and the social, see, how the feed is coming, from the regulatory to the economic, from the social to the economic, both ways. Then similarly from the political to the technological, from the political to the social. Now all these components leading to what is called the mega environment. So we looked at the transportation capabilities, energy mastery, all are coming under this head.

Now if you look at the micro environment constituents, the micro environment constituents are basically: one is the suppliers. The second is the marketing intermediaries. The third is the market types. The fourth is the market demand. The fifth is the competitors. Then the sixth is the financial institutions. The seventh is the regulatory provisions. The eighth is the industrial relations climate. And the availability of skilled manpower; all these forming the micro environment.

All these are discussed in more detail in my book on Strategic Management, chapter number 6 gives you the constituents of mega environment and their impact on page number 73. What is this relevant environment is also discussed there.

And I have taken an example. I am reading from page 73 of the book. The relevant environment refers to the primary business focus of the organization. For example, Larsen and Toubro has a diversified product mix, with product lines ranging from machinery for cement plants, electrical switch gear, material handling, computer peripherals and construction equipment.

Each of these products belongs to a specific industry and hence, may have a specific micro environment. Similarly, a limited portion of the mega environment may also be relevant to L&T. So in essence the relevant environment encompasses some of the elements of the micro and the mega environment, which is of interest to the organization. It should be noted that it is impossible to take advantage of all the opportunities that may be present in micro and mega environment by an organization.

So this also has to be borne in mind. So what all I gave you as examples of technological environment all again listed here. And this is again brought out by a table. This table is available to you on page number 76 of the Book, which I have reproduced here.

So if you look at the economic factors we are looking at GDP trends. What is a GDP trend? Gross Domestic product (GDP)- now this is becoming more pronounced in the global context because of the COVID pandemic. Each world body, including RBI gives a forecast for the GDP. The World Bank gives a forecast for the GDP. IMF gives a forecast for the GDP for the country.

So, in spite of this pandemic all these bodies expect the country's GDP to be growing around 8 percent, which is considered good in the present day context though they would have been very happier with a double digit growth. So the country would have been happier with a double digit growth, but because of this pandemic it has impacted the GDP. It has impacted the interest rates also.

If you look take the present day banking interest rates it is very, very poor. So you look at an interest of 4 percent, 4.5 percent, 5 percent for fixed deposits, many times you wonder whether your deposit, the principal is getting interest at all. Fixed deposit interest is also taxable.

So with all these things many times the individual consumer or the individual thinks that, bank deposit interests are not really the one which I should be looking at. So he will try to explore other possibilities; now the present day trend is to invest in mutual funds. The third is the money supply ; if the money supply is huge then it leads to devaluation of the currency.

So basically what happened in 91, so though we called it liberalization and all that; you found that the value of the dollar suddenly jumped up. Now the value of the dollar is upwards of rupees 75, again very high. Inflation rates whether it is the whole price index or the consumer price index, how it is with respect to the economy.

Then the unemployment levels. Again you find that government is attacked day in and day out on this rising unemployment. So wage price controls, then devaluation, revaluation. So the present government took steps like the demonetization. So it was aimed at curbing black money. The second is if you looked at how to augment the revenue- the government introduced the GST. The GST is the main revenue bringing source for the government today.

It is continuously over 1 lakh crores on a regular basis. So this is considered to be one of the main revenue earning areas. Energy availability and disposable cost and discretionary income. What is this disposable and discretionary income? Suppose your salary package is let us say hypothetical 100 rupees and in order to have a living you should have 150 rupees, then what is the inference that you are drawing? Your disposable income is negative. Your discretionary income not really there, because your 100 rupees what you are getting is not able to sustain you at all.

So this is what is happening also in the present day setup, where you are having this below the poverty line, above the poverty line , and the government saying for those people below the poverty line we are giving ration, other sops.

Now what about the technological indicators? The total government spending for R and D. This is where the developed countries are way ahead of developing countries like India. Take a country like the United States. Its R and D spend is nearly 6 percent of its GDP. A GDP which is running into trillions of dollars and then a spend of 6 percent is very, very high. And in a country like the United States, the State of California itself accounts for more than the GDP of almost all the countries in the world except 6 according to latest figures.

One state in the United States that is the State of California is able to have this much of GDP. Then total industry spending for R and D all this coming under the Focus of technological efforts - if you look at the developing countries and the developed countries, the thrust of the developed countries, take for example, the electric vehicles that has is coming out from Tesla, so highly innovative.

Now the Indian market is also forced to look at these types of technological efforts because of rising fuel prices, especially petrol, etc; patent production, new products, new developments in technology; transfer from lab to marketplace. So earlier suppose you wanted to take the product from the lab to the marketplace many times it used to take years.

Now, what is the present day situation? You are looking at a few months, technology developed in the lab comes out as a product within a few months in the marketplace. Productivity improvements, especially in automation all those types of things. So there are so many political legal components that is with respect to antitrust regulations, environmental protection laws, tax laws, special incentives, foreign trade regulations, attitudes towards foreign companies, loss on hiring and promotion and the stability of the government.

Fortunately now, over the last 8 years you have a stable government in the country and the stable government in the country is contributing greatly towards a healthy environment, business environment. Then what are the sociocultural factors? The types of changes that have come about the lifestyles change. I remember in the 70s, suppose a person got a 4 figure salary in the Indian context he was considered extraordinary.

Now the changed context in 2020 almost everyone gets a 4 figure salary. Forget it. Even 5 figure salary has also become quite common. So the career expectations- the Indian youth right now looks at a career which he never anticipated a few decades back. So consumer activism- consumer activists attacking company products, etc, rate of family formation; these are some of the cultural values which have impacted the present day setup. So many of this, especially over the last 15 years if you ask the Indian parent, especially the Hindu parents in the country many are telling that they are not able to have influence over their children's activities.

Earlier as a child or as a youngster or as a youth, the son would normally consult the parents, son or the daughter both before taking up any activity. But now the present day situation is different. Earlier we used to think that you can always say what your daughter must do, that is daughters will be more amenable to the parents, but that is also not happening. So you may find that the daughter might rebel etc.

If you ask many of the Indian families, especially the Hindu families in the country, they are

likely to say that because of this advent of IT our cultural values have got terrifically impacted. They say many of the norms of Hindu culture, have got breached by these happenings due to IT advances that is taking place. So you have, what you call, so many things not under the control of the parents.

So while this has been the grouse of most of the Indian parents, Growth of rate of population- one of the things which is happening with respect to India is the Hindu growth rate is coming down because of these cultural impacts. So marriage as an institution itself is getting questioned. So earlier we never used to have divorces. Now divorces, we are seeing in the Indian context also.

So the other day they were telling me that for the divorce case to come to the court for hearing itself takes several months; age distribution of population- many times we used to think that India has a great advantage because its high youth population between 25yrs to 40yrs, that is the youth population- even this is getting impacted. Regional shifts in population, life expectancies, birth rates, again lot of impact on sociocultural values. All these are some of the impacts, which one has to grapple with in the present day context.

So along with economic aspect, this is also impacting the companies as well. So you cannot be oblivious to what is happening around the firm. You have to have an open vision for all these happenings and design your reaction or action or proaction to many of these indicators. We stop here, we will continue in the next session. Thank you.