Changing Dimensions of Indian Business

Business Environment is the world around a company over which it has no direct control. It covers many dimensions impacting a company's activities & performance. It is an aggregate of all forces & factors external to the business enterprise, but which influence it's functioning. There is a mutual inter-dependence between business and its environment. A business enterprise is an open system and it continously interacts with its environment. Businesses take inputs like raw material, capital, labour, energy, etc. from the environment, and transform them into goods & services, and then send them back into the environment. Interaction between business and environment is in various ways such as: exchange of information, resources, influence & power.

There are several layers of influences surrounding a business. The outermost layer, called the macro-environment, consists of dimensions that impact almost all companies in an economy. These factors are the six aspects of business environment - Political, Economical, Social, Technological, Environmental, & Legal.

Political environment includes factors like a country's political system, type of goverment, centre-state relations, public opinion, law & order, nature of government policies towards business - particularly those related to taxation, industrial relations, regulation of business & industry, and foreign trade regulations. It also relates to the stability of the government in power, the risk of major political disturbances, or threats from anti-social elements, terrorists or other countries.

In the period prior to **liberalisation**, India's annual growth rate was low at around 3.5%, only a few licenses were given out for important sectors like steel, electrical power, energy and communication, and these licence owners built up powerful corporate empires. India at that time was a socialistic economy with excessive govt. control. Core industries were directly managed by the govt. as public sector enterprises, and banking and airline industries were nationalised. A huge public sector emerged and state-owned enterprises made large losses. There was public sector monopoly and investment in infrastructure was poor. Licence Raj established the self-perpetuating bureaucracy that still exists in India and corruption flourished under this system.

GOI began the process of **privatisation** in 1991. Privatisation means having private ownership, management and control into public sector undertakings. The purpose of privatisation is to improve the efficiency of public undertakings and to raise funds for public investment. As a result financial institutions have become more active, working culture is improving and management is being professionalised, there is improvement in technology, better investment behaviour of Indian entrepreneurs and companies are aware of the significance of human capital. The banking, financial services & insurance (BFSI) and airline sectors have become extremely competitive, but are in need of reforms. There have been some negative effects like curtailed growth in some industries, reduced employment opportunities due to adoption of capital intensive technology, sell-outs & takeovers by foreign companies, losing markets and declining capacity utilisation.

Auto Industry

A few decades ago, the markets were not opened up. Due to lack of competition, Bajaj scooters had 13 year waiting lists. Consumers had no choice but to wait for delivery and they were even willing to pay premiums equal to the original cost. Strings were pulled and quotas were invoked to speed up allotment as these scooters were much sought after as wedding gifts. Those were the heydays of 'hamara Bajaj'.

Buying a car meant choosing between a Premier Padmini (which was a Fiat 1100 assembled in India), the Ambassador by Hindustan Motors (a replica of the Morris Oxford - an old British car) and the Standard Automobiles' Gazelle, as they were the only cars available in India. The production of Maruti Suzuki 800 hatchback in 1983 by Maruti Udyog (a JV between GOI & Suzuki Motors of Japan), paved the way for a renaissance in the Indian automobile sector.

Today with it's booming economic growth, India is on every vehicle manufacturer's map for obvious reasons. It is the 2nd largest two-wheeler market, the 4th largest commercial vehicle market, and the 11th largest passenger car market globally. Many foreign manufacturers have set up base in India offering an assortment of vehicles for every need. Domestic manufacturers have also improved their quality & production levels and are in the race for a bigger share of the consumer pie. As a result of all this, there is also a growth in the auto-ancillaries and spares industry, as well as the second-hand auto market.

Some of the reasons for the impressive growth of this industry are easy availability of vehicle finance, attractive rates of interest, and convenient installments. Competition has forced manufacturers to be innovative and responsive to customer needs. Customer expectations have also soared to higher levels.

Economic factors relate to the general condition of the economy within which a business operates. It comprises of the factors and forces concerned with means of production and distribution of wealth. It refers to the nature of economic system, economic policies of the country, organisation of capital & money markets, GDP, income level, growth rate, inflation rate, interest rates, money supply, and unemployment rate. The Indian economy is currently the 9th largest in the world by nominal GDP and the 4th largest by purchasing power parity (PPP). Economic growth rates are projected at around 7.5%-8% for the financial year 2011-2012.

Economic Liberalisation was when India adopted free market principles and it included opening India for international trade and investment, deregulation, initiation of privatisation, tax reforms and inflation-controlling measures. The fruits of liberalisation reached their peak in the year 2007 as India reached it's highest GDP growth rate of 9%. With this India became the 2nd fastest growing economy in the world, next only to China.

However dealing with powerful lobbies such as the trade unions and farmers, or contentious issues such as reforming labour laws and reducing agricultural subsidies, are some areas that still need economic reforms. India will soon allow foreign direct investment (FDI) in the retail industry, as it has been passed by the cabinet.

India Report by Astaire Research states: "A Balance of Payments crisis in 1991 pushed the country to near bankruptcy. In return for an IMF bailout, gold was transferred to London as collateral, the rupee devalued and economic reforms were forced upon India. That low point was the catalyst required to transform the economy through badly needed reforms to unshackle the economy. Controls started to be dismantled, tariffs, duties and taxes progressively lowered, state monopolies broken, the economy was opened to trade and investment, private sector enterprise and competition were encouraged and globalisation was slowly embraced. The reforms process continues today and is accepted by all political parties, but the speed is often held hostage by coalition politics and vested interests."

Globalisation is a process of integration of business activities and growing economic inter-dependence between countries in the world economy. Growing similarities of countries in terms of availability of infrastructure led to globalisation. It has exposed firms to international competition, resulting in an increase in employment opportunities and widening of competition.

Foreign Direct Investment

The impact of these economic reforms was that total foreign investment in India grew manifold and cities like Ahmedabad, Bangalore, Chennai, Hyderabad, Pune, NOIDA, Gurgaon, Ghaziabad, Jaipur and Indore have risen in prominence and economic importance. They have become centres of rising industries and destination for foreign investment and firms. With GDP growth predicted to be around 8% over this decade, India is set to reap the benefits of development. This time round, the good cheer is likely to spread over a wider geographical area covering smaller cities and towns. Tier II & Tier III cities have tremendous potential for firms in the outsourcing, IT offshoring, retail and real estate development sectors. This is really where the teeming Indian middle class lives. Companies are going there because they see potential. In terms of education, several of these cities are home to good quality universities that produce thousands of graduates & engineers. In terms of employment, with outsourcing, IT & retail gunning for these smaller cities in search of space, employees and customers. The government promotes these cities as investment options to decongest Tier I cities and for a more uniform development of the country.

Socio-cultural environment covers factors such as social customs, traditions, culture, lifestyle, attitude of people, saving & spending patterns, size of population, demographic profile, education level, occupational structure, trade unions, and other factors that influence and describe the behavioural characteristics typical of the people. It would also include the Corporate Social Responsibility initiatives undertaken by companies.

CSR Initiatives

CSR in India is in a nascent stage. It is still one of the least understood initiatives in the Indian development sector. A lack of understanding, inadequately trained personnel, non-availability of authentic data and specific information on the kinds of CSR activities, coverage, policy etc. further adds to the reach and effectiveness of CSR programmes. However the situation is changing as CSR is coming out of the purview of 'doing social good' and is becoming a 'business necessity'. The business case for CSR is gaining ground and corporate houses are realising that what is good for workers - their community, health and environment is also good for business.

Technological dimension covers the nature of technology available and used by an economy. It also covers the extent to which development in technologies are likely to take place. This may be reflected in factors like expenditure on R&D and rate of obsolescence.

New Technology

Technical obsolescence occurs when a new product or technology supersedes the old, and it becomes preferred to utilize the new technology in place of the old. Some examples of technological obsolescence are telephone replacing the telegraph, and DVD replacing VCR. Products are becoming obsolete and getting replaced by newer versions. Not many people will remember the days of the floppy disk. Computers are becoming smaller but faster, and TVs are becoming sleeker with more features.

Environmental factor refers to the physical or geographical environment affecting the business. It also includes the considerations like environmental pollution, climate change, carbon footprint, etc.

Carbon Footprint & Kyoto Protocol

Carbon footprint is the total set of greenhouse gas (GHG) emissions caused by an organization, event, product or person. Greenhouse gases can be emitted through transport, land clearance, and the production & consumption of food, fuels, manufactured goods, materials, wood, roads, buildings, and services. The mitigation of carbon footprints through the development of alternative projects, such as solar or wind energy or reforestation, represents one way of reducing a carbon footprint and is often known as carbon offsetting.

Carbon dioxide emissions into the atmosphere, and the emissions of other GHGs, are often associated with the burning of fossil fuels like natural gas, crude oil and coal. The Kyoto Protocol defines legally binding targets and timetables for cutting the GHG emissions of industrialized countries that ratified the Kyoto Protocol.

Nations which have failed to deliver their Kyoto emissions reductions obligations can enter Emissions Trading to purchase instruments like Certified Emissions Reductions (CERs) and Emissions Reduction Units (ERUs) to be sold on international markets, in order to cover their treaty shortfalls. Within the next few years China, India and the United States are some of the nations scheduled to start participating in Emissions Trading Schemes.

Chief Green Officer

Many corporates appoint a Chief Green Officer, who is responsible for implementing and managing the corporation's commitment to reducing its carbon footprint and protecting the environment. He is the administrator of the organization's eco-friendly programs, initiatives, and education, and shares the responsibility with the CEO and COO for the direction of research & development of new technologies and strategies for the company.

Legal or regulatory dimension describes the framework of legislation impacting business. It includes all the laws, legal system and judicial system of the country. A business has to work within the framework of a country's laws and regulations.
Laws important to business relate to areas like monopolies & restrictive trade, consumer protection, employment, industrial relations, health & safety, and joint stock companies.

Laws & corruption

Even today industry is subjected to harassment by at least 35-40 various inspectors of the GOI. Every city in Maharashtra has Octroi duty, which leads to long queues at the city borders causing delays of over 24 hours in deliveries. Excise & Customs duty is another area of concern. There is practically no internal mechanism to control corruption in govt. depts. which are manned by high-handed bureaucrats. There also exists massive political patronage & influence leading to corruption on unprecedented scale. Inspite of dismantling licence raj, for every small thing corporates still need to use middlemen to lobby the govt. depts.

Setting up manufacturing units in excise-free zones has been a popular option for business houses in India. However there has been random creation of excise-free zones as sops to backward states. Most of these states (with the exception of Uttarakhand) have not bothered to create any infrastructure. Baddi in Himachal Pradesh has no infrastructure to support industries and no sanitation either.

Airline Industry

Airlines are an important part of the economy. Apart from contributing considerably to the national exchequer and providing significant employment opportunities, many industry sectors like tourism and hospitality also benefit from the well being and growth of the airline industry. The high operating cost environment in India, coupled with the competitive nature of the airline business, has resulted in a continued strain on the health of the airlines. Fuel accounts for close to 40% of the total operating costs for airlines in India. Aviation Turbine Fuel (ATF) prices for domestic operations in India are unduly higher than international benchmarks – resulting in a tremendous financial burden on Indian carriers. Even though the ATF supplied at Indian airports (both for domestic & international operations) is not imported into India, but is the product of crude refined in Indian refineries from imported crude, the 10% Customs duty is taken into account in fixing the prices of ATF supplied to the airline operators. So unduly high taxes are undermining industries. Tax on ATF is choking the nascent aviation industry in India. Air India & Kingfisher Airlines are recent cases in need of financial bail-outs.

Within this general environment, the next layer closer to the company may be called the **Industry**, of which the company forms a part. Now there is increasing competition with entry of multinationals, and also FIIs pumping in capital, especially in the retail sector. This has resulted in direct competition with expensive European & American brands, and at the lower end with cheap Chinese imports (like toys, electrical goods, flooring tiles etc.) resulting in a margin squeeze.
The layer closest to the company consists of its specific **Markets** and **Organizations** that contribute to its production & distribution activities. It includes various stakeholders of a company - **Employees, Customers, Competitors, Suppliers** and **Distribution Channel Partners.** It also includes other businesses manufacturing and marketing complimentary goods & services.

Marketing

Exposure due to satellite TV & other media has resulted in customers becoming more selective and demanding,
even in the rural sector. Green revolution and creation of industrial zones in rural areas has ushered in a rich farmer class with an appetite for conspicuous consumption. Sanand (a small town in Gujarat where the Nano factory is located) has become one of the booming entrepreneurial centers and boasts of a number of high-end car models sold in India. It has attracted commitments of billions of US dollars in investments from some of world's largest companies.

The Indian middle class (estimated to be 150 million people by McKinsey) is fast becoming used to Western culture. With increasing disposable incomes, a larger middle class has been created whose needs have gone beyond the basic 'roti, kapda aur makan'. The sheer number of consumers has created a huge market for all kinds of goods. Hence the booming sales of consumer durables and vehicles. This has created a huge problem of managing traffic and providing adequate parking place for vehicles in already congested urban areas.

The standard of living in India shows large disparity. Rural areas exist with very basic medical facilities, while cities boast of world class medical establishments. The World Bank estimates that a third of the global poor now reside in India. Although Indian economy has grown steadily over the last two decades, its growth has been uneven when comparing different social or economic groups, geographic regions, and rural v/s urban areas. A study by the Asian Development Bank (ADB) showed that in 20 Indian cities the average duration of water supply was only 4.3 hours per day and no city had a continuous water supply.

Manufacturing

The availability of power to industry continues to be woefully short in most Indian states. Non-availability of raw materials is leading to black market. In the pharmaceutical sector most of the basic bulk drugs come from China, which sometimes leads to stock-out situations. The govt. needs to give some thought to developing this aspect, so as to be independent for our requirement of bulk drugs. Erratic & whimsical interpretation of Drug and Excise Rules by FDA and Excise staff respectively. Every month new notifications are received for one thing or the other. Also, huge amount of manufacturing data is to be provided to govt. every year which probably no one in any of the govt. depts ever looks at. If they need something, they ask for fresh data all the time.

Supply Chain

There are delays of as much as 24 hours at most state borders and also in Maharashtra for entry into any city. There are unusual delays at ports for shipping of containers. The costs of transportation of containers from factory to the port of embarkation are also exorbitant. (e.g.) The cost of transporting a 20 tonne container from a factory in Gujarat to Jawaharlal Nehru Port Trust (JNPT) in Navi Mumbai is about INR 70,000 and the sea freight from Mumbai to Colombo is about USD 250 or to any port in Latin America is about USD 2,000.

With global markets open, sourcing of best material at competitive prices has become possible. Similarly exports as a percentage of total sales have increased significantly. The downside of this is shortage of goods in India. (e.g.) Onion and fruit exports causing severe shortages in domestic markets.

Finance

Although availability of finance has become easier, costs of funds have gone up. Intense competition has led to increase of credit limits and credit days as well as discounts, reducing margins drastically. Labour costs have now become significant as a percentage of total cost of production.

Human Resources

Archaic labour laws continue to dominate. There is very little improvement in productivity of the Indian worker. Companies face constant threats from trade unions. There is political interference and an acute shortage of trained, skilled labour.

The management of business enterprises respond to environmental forces in different ways depending upon their goals, values, beliefs and competence.