

Unit 4: Environmental Context of Management

Environment occupies a very significant place in functioning of organization. It refers to the forces that create conditions and influences on the capacity of a business firm to compete in the market. The ability to cope with the changing environment determines the survival of an organization. Thus, analysis of the environmental forces is the key to be an effective organization.

Business environment is sum total of all forces surrounding and influencing the life and development of an organization. According to Gareth: Business environment is defined as “The set of forces surrounding an organization that have the potential to affect the way it operates and its access to scarce resources”

Business manager have to understand changes and complexity of the environment forces to skillfully exercise them so as to increase firm’s competitive capacity in the market.

Organisation – Environment Relationship

Business organizations are viewed as the open system. There is constant interaction between a business system and its environment. Organisation obtains resources from the environment and transforms them into outputs that are again returned to the environment in the form of finished goods and services.

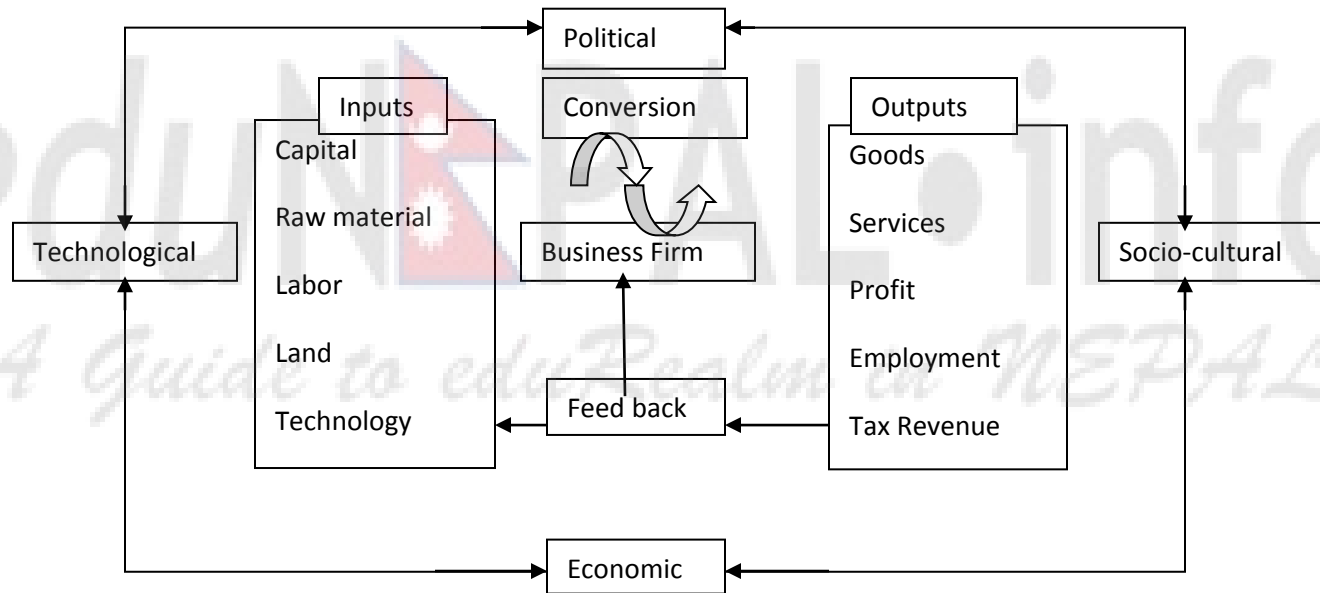


Figure 1: Business system and its environment

Types of environment: The component of business environment is classified into two broad categories.

1. Internal Environment
2. External Environment.

1. **Internal Environment:** Internal Environment is defined as all the forces and conditions within an organization that influence organizational behavior. An organization’s internal environment has the following components:

- a. **Employees:** They are the main components and important assets of an organization. Employees are responsible to work as per the direction, goals, rule and regulation of the company. To work on these goals and directions, organization has to motivate and satisfy employees with specific

reward policy. Without the cooperation of employees and their productivity, organization cannot attain their expected goals.

- b. Shareholder and Board of Directors: Shareholders being the owners of business have a direct interest in the performance of the organization. The directors are elected by them (shareholder), who represent their interest in the board. The board is responsible to manage company and formulate appropriate strategy and long term planning. They evaluate overall organization performance and provide direction to the top level management for the growth of an organization.
- c. Culture: Every organization has its own culture. Culture refers to a set values, beliefs of an organization under which it is functioning. It helps to bind all employees and comply with organizational rules and regulation. Culture has a powerful influence on the process of organizational change and decision making.
- d. Labor Unions: Labor Union represents the problems and feeling of their members to management. The good relation between labor union and management avoid unnecessary disturbances in an organization.

1. External Environment:

External Environment is the condition and forces outside the organization that are relevant to its operation and influence the organizational activities. There are two categories of the external environment.

- a. General Environment
- b. Task(Specific) Environment

- a. General Environment: General Environment consists of those forces that put direct pressure on the organizational activities. They are as follows;
 - i. Economic Environment: General economic conditions are critical to the success of an organization. It is defined as the nature and direction of the economic system of a country and their impacts in the individual organization. The economic factors such as, national income, saving, investment, monetary policy, economic growth, interest rate, consumption pattern, employment rate etc. have great impact on functioning of an organization. Managers should devote much of their time and resources to forecast the economy and anticipating changes.
Components :(Economic System, Economic Policies, Business Cycle, Capital Market)
 - ii. Socio-Culture Environment: The socio-culture environment affects the behavior of people and their organization. It includes, values, beliefs, lifestyle, family-system, opinions, and assumptions widely held by the citizen of the particular country. These elements of society directly influence business organization.
Components: (Attitude and Beliefs, Religion, Language, Education, Social Organisation, Class System)
 - iii. Political Environment: It refers to the influence from government institution, strategies of the political parties, policies of state and local government, and relationship between government and business organization .Political Environment is important to the manager because:
 - a. It imposes certain legal constraint on the business.
 - b. It establishes a market atmosphere that may be pro-business or anti-business.
 - c. It has the potential to provide stability needed for long term business planning.

Components: (Constitution, Political Parties, Government, International Political Events)

- iv. Technological Environment: Technology is the practical application of scientific knowledge. Radical development has occurred over the past several years in communication, information, and automation including robotics. This development brings both opportunity and threats for the organization. Thus, organization should utilize its strength to capitalize the opportunity and neutralize the threats.

Components: (Up-gradation and Maintenance, Information & Communication Technology)

- b. Task(Specific) Environment: The specific environment comprise the following factors:

- i. Customer: Customer exchange resources, usually in the form of money for a organization's product and services .A customer may be individual, a family, a business house or an institution. Customer not only buys the product or services they also give valuable ideas, opinions information and reaction related to it. Thus mangers should maintain close relationships with them.
- ii. Suppliers: Suppliers are the organizations which provide resources (material, men, machines, capital etc) t to other business firms. As the quality and price of the raw materials receive from the suppliers determine the quality of output, the business firms try to obtain lower prices, better quality work, and faster deliveries. Which strength the competitive position or an organization.
- iii. Government: The role of the government is to regulate business systems and to protect the interest of the consumers and the general public .It has greater influence on corporate policies, procedures and business practice of modern organization.
- iv. Competitors: It refers to an organization that competes for resources with other organization. The organization must analyze the competition and establish clearly defined marketing strategy in order to provide superior customer satisfaction and to increase market share.
- v. Media: The media keeps eye on the vital decision or actions of the business firm having general public interest. Therefore managers need to have good communication with both media and external audiences and deal with them effectively and promptly.
- vi. Financial institution: Organization depend on a variety of financial institution such commercial banks, merchant banks and insurance companies to supply fund for maintaining and expanding their activities. The term and condition of loans and advances and quality and promptness of their services have an impact on the performance of a business.
- vii. Special interest group: It refers to environmentalist, unions, consumers, advocates, and much other professional organization. There organizations pressurize the company or business firm to advance their position and issues like quality service, price, waste management, environmental protection etc.

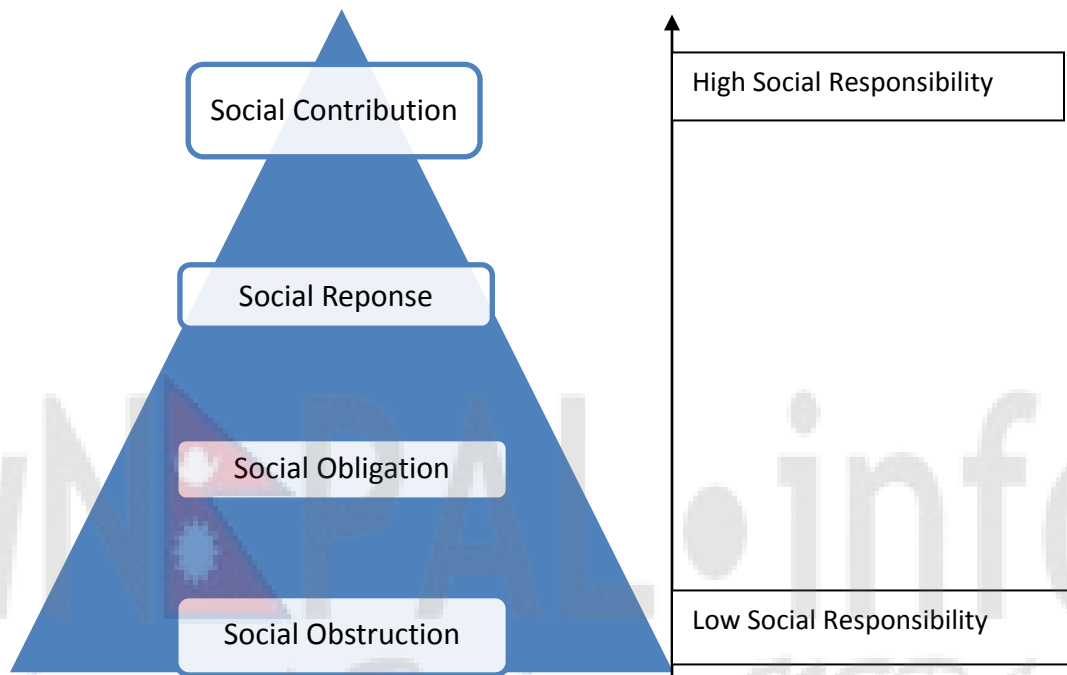
Social Responsibility :(We prosper by helping society prosper)

Business is the integral part of the communities in which they operate. All good executives know that their long-term success is based on continued good relations with the wide range of individuals, group and institution. So in general, social responsibility refers to transparent business practices that are based on ethical values, compliance with legal requirements and respect for people, communities and the environment. Thus, beyond making profits, companies are responsible for the totality of their impact on people and the planet.

According to Griffen:

“Social responsibility is the set of obligations an organization has to protect and enhance the societal context in which it functions.”

Approaches to social responsibility:



1. **Social Obstruction:** The organization which performs as low as possible social responsibility. And sometimes even crosses the ethical boundaries. E.g. adulteration in products.
2. **Social Obligation:** The organization which only performs that much social responsibility which are bound by laws. E.g. writing warning in cigarette packets.
3. **Social Response:** The organization which performs those activities which are legal and ethical. Such as providing toothpaste and toothbrush in dental camp, collecting blood for Nepal Red cross Society etc.
4. **Social Contribution:** Organization itself participates actively in the development and welfare of the society. E.g. Building hospitals, schools, conducting skill development program etc.

Areas of Social Responsibility:

1. **Organizational Stakeholder:** Creditors, suppliers, local community, employees, government, are the stakeholder of the organization. Thus, to have a good relation with them, the organization should produce qualitative products, provide reasonable salaries to employees compare to competitors, no discriminations between the employees, pay taxes etc.
2. **The natural environment:** There is globally high concern on natural resources depletion. Protection of water, soil and air from pollutants are the global issues which the organization should deeply consider while taking corporate decisions.

3. **General Social Welfare:** For the perpetual growth and existence, organization should have good relation with society. This relation can be strengthened by contributing in charities, establishing health care centers in remote areas, providing jobs etc.

Management Ethics:

Management ethics is a philosophically related with moral conduct, duty, and judgment of our managers.

According to Ricky W. Girffen; “Ethics is an individual’s personal belief about whether a behavior, action or decision is right and wrong”.

Sources of Management Ethics:

An organization’s ethics is derived from three principle sources. They are;

Social Ethics: The values and standard embodies in a society’s laws, customs, practices and norms and values.

Professional Ethics: The value and standard that groups of managers and workers use to decide, how to behave appropriately.

Individual Ethics: Personal values and standards that results from the influence of family, peers, upbringing and involvement in significant social institution.

Significance of management Ethics:

Organization is a social system. Any unethical activities may harm all the stakeholder of an organization. Hence, the management of a business organization must be aware of the significance of maintaining ethical standard for its existence and sustained growth.

- Ethical behavior enhances the reputations and goodwill of a business. The organization gains reputation and goodwill when it behaves ethically. Reputation is a valuable asset for a business firm.
- An organization violating ethical standards faces criticisms and hostility. Such violations also result in penalty or social boycott of its products.
- Ethical standards of business helps in economic and social development in the society in which it operates through effective and prudent use of resources, free and fair competition. A climate of fairness develops, not only in the business, but also in other organizations associated with it.
- By following ethical standards, a business can keep its promises and transparency. It gains credibility and stability.
- By acting ethically, a business organization can protect the interest of the wider society.
- A climate of justice, freedom, equity and equality is created in an organization through ethical practices.

Emerging Business Environment in Nepal:

Nepal is one of the least developed countries in the world. After being restoration of democracy in 1990, there were so many developmental activities conducted on improving the economic, social, political and technological environments. The decade of 1990s witnessed fast changes in Nepal’s business environment. Those developments are:

- i. Open market, liberalization and deregulation of the economy.

- ii. Privatization of major public sector enterprises
- iii. Consumers and environmentalists have started exerting pressure
- iv. Social awareness brought forth the movement towards pluralistic society.
- v. Demand on business also arose from the social activists and citizens
- vi. Technology transfer issues came into prominence.
- vii. Nepal's participation, commitment, and membership in different forums such as WTO.

Economic reforms started by the government during the last two decades have changed the industrial and business environment significantly. After becoming a Republic State on May 28th 2008, along with changing political scenarios, different possibilities and challenges of economic development have started to reorganize in a sharper focus. The ever-growing process of globalization, the presence of multi-nationals in the market, the open door to import and the obvious shift to a buyer's market have thrown new demands and challenges on business firms of the country.

1. **Economic Environment:** Nepal has adopted a mixed economy where the public and private sectors freely operate for the overall development of the country. Though we have come to an end of 3 years interim plan (2007-2010) the economic condition had not improved as planned. There are vast disparities in the income level of the people. The growth rate is below 3% and has heavy pressure on the low income group because of high inflation rate (i.e. more than 10%). There is a high trade deficit, imports from India and China and third countries are increasing rapidly whereas exports to those countries are degrading day by day due to weak and low quality products and services. Apart from this, the emerging globalization concept (i.e. free flow of goods, services, human resources, etc. in-between countries) has hit hard to the small and cottage industries. The brain-drain is also a new challenge for the nation. However, various reform programs in quality management and export-oriented business bring some hope in the development of the economic environment of Nepal.
2. **Political and Legal Environment:** Since the last 20 years Nepal has been going through a number of political ups and downs. Unstable government and frequent strikes by different political parties and their sister organizations create chaos in the country. The rules and regulations are being violated by people and organizations supported by political parties. Frequent changes in policies also create more confusion and threats to the existing and newly invested companies. Problems related to labor unions, employees' dissatisfaction, human rights and civic societies and professionals have not been properly addressed. Apart from that, political parties are not reaching a consensus to draft a new constitution for New Nepal.
3. **Socio-Cultural Environment:** People of different caste, religion, belief system, educational background, age, sex and awareness are in our nation. There are still incidents related to caste discrimination. Literacy rates in remote areas are not improving as expected. Most of the younger people in the villages are flown to Middle East countries for better life style and income. Hierarchy system also prevails in society and organization. People working in higher positions think themselves as superior and dominate the lower position staff and people. Undue influences, hypocrisy, nepotism, favoritism are very common in our society and organization. However, Nepalis are known for being simple, well-behaving guests, honest to their parents and owners, loving nature and sacrificing. This attitude and behavior could be a good source for future growth of business activities.
4. **Technological Environment:** The technological environment consists of that process by which an organization transforms inputs into outputs. Technological development depends on government spending on research, new discoveries and development, technology transfer and operation.

system. In Nepal there are very few industries which go side by side with the increasing improvement in technology. Especially, the financial sector, telecommunication sector are using latest technology. Whereas agriculture sector, industrial sector are still show slow pace in improving the functioning of their activities in using latest technology. There are also financial constraints for small organization to update their technologies. Apart from that, government also shows lack of interest in developing efficient and effective method to enhance the development of new technologies.

