

# A Study of Importance for Analyzing and Understanding the Firm's External Environment in Delhi

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**Abstract** – This paper will be conceptualizing relationship between external environment, firm capabilities, strategic responses and performance in Delhi. External environment will be argued that it positively influences performance. Other perspectives have posited that firm capabilities moderate the choice of strategic choice. However, some empirical studies have contradicted these influences hence the need for more research on the effect of firm capabilities on the external environment in Delhi. These variables were contextualized in large scale manufacturing firms in Delhi. The broad objective of the study will be to determine the influence of firm capabilities and strategic responses on the external environment and performance of large scale firms in Delhi. The specific external environment on performance, determine the influence of external environment on strategic responses, determine the influence of strategic responses on performance, determine the effect of strategic responses on the external environment establish the effect of firm capabilities external environment and lastly, establish the joint effect of external environment, firm capabilities performance of large scale manufacturing firms in Delhi.

**Keywords:** Importance, Firm's, External Environment, Delhi, Performance, Influences, Effect, etc.

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## INTRODUCTION

Firms that appropriate external analysis face the risk of encountering threats that were not anticipated in the strategic marketing process. Likewise such firms may also miss out on opportunities. External analysis cannot identify every possible threat and opportunity, but it can greatly increase the probability that a firm's strategy will be neutralize threats and exploit opportunities in Delhi. Firms that take a disciplined approach to external analysis will be likely have an advantage over those firms that embark upon strategies without taking the time to understand the external environment in Delhi. A good analysis of the external environment may allow a firm to face threats and opportunities at a point in time when the firm does not have resources committed to a particular strategy in Delhi. External analysis consists of looking at two 'levels' of environment: the general environment and the industry environment. The general environment is the environment in which all firms in an economy operate, regardless of a firm's specific industry in Delhi. Elements of the general environment have a potential effect on every firm in an economy. Analysis of the general environment aims to identify conditions or trends that may present opportunities and/or threats

to a firm in Delhi. Six elements of the general environment are:

- Political conditions
- Economic climate
- Social-cultural trends
- Technological change
- Environment
- Level conditionslega

An effective analysis of the general environment will include a close look at each of these elements to determine if there are conditions and/or trends that will affect the firm in Delhi.

## REVIEW OF LITERATURE:

A firm's external environment as defined by several authors (Pearce, et. al., 2012). (Hitt, et. al., 2011). (Machuki, 2011). (Machuki & Aosa, 2011) is a firm's aggregate of external factors that have impacts on its functioning. It is the source of

constraints, contingencies, problems and opportunities that affect the terms on which firms transacts business in Delhi (Babatunde and Adebisi, 2012). No enterprise of any kind can operate in the absence of environmental constraints, or restrictions imposed by the firm's surroundings. The process of decision within environment is never ending and therefore a continual reassessment of the status of the strategic factors in this environment must take place in Delhi.

Performance of large manufacturing firms in Delhi is of great concern because they play a significant role in economic development. This notwithstanding, they operate in a manufacturing sector fraught with different levels of external environment dynamism, complexity and munificence. These are observed in the macro, micro-environment and industry in the operating environment in Delhi. Further, their individual performance is largely a function of how they respond to the environment. Further, specific firm's capabilities each possess may not be the same across, thus, how they choose their strategic responses may be influenced by the capabilities each uniquely possesses thus create variations in firm performance in Delhi. There is no widely held consensus concerning how firm environments should be assessed and measured (Eseroghene, 2011). Some theorists and researchers have treated environments as objective facts independent of firms and others have treated environment as perpetually determined and enacted in Delhi (Kariuki, et. al., 2011). However, it is impossible to examine everything and some environmental elements are more relevant to a particular firm and particular issues at hand than others. This has led theorists to stratify studies of environment according to level of specificity, immediacy and relevance to the firms' phenomenon of interest. Empirical evidence emerging from studies and theory on the external environment and firm performance suggest that the external environment is a source of opportunity, threats and resources as inputs for firms. Perceiving, understanding and responding to the environmental upheavals have implications on individual firm performance. It could thus be postulated that external environment has a significant influence on firm performance in Delhi.

Even though many researches attempted to improve the model, by rethinking and reinventing it, this research will use the original set of 5 forces, which was developed by Porter and which can be seen in the figure 1 below.

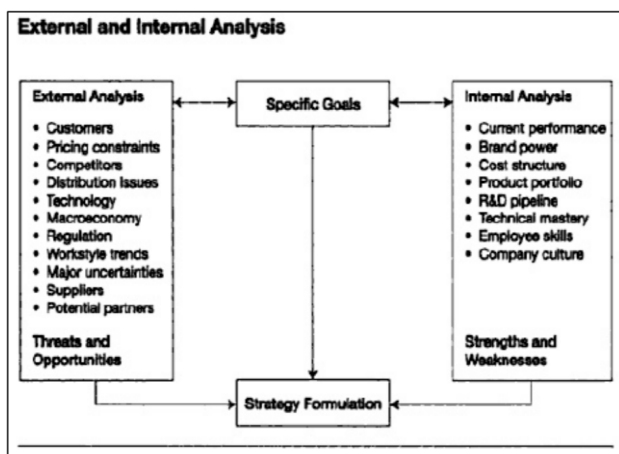


Figure 1 Porter's five forces

Three of Porter's five forces refer to competition from external sources. The remainders are internal threats. Porter referred to these forces as the micro environment, to contrast it with the more general term macro environment. They consist of those forces close to a company that affect its ability to serve its customers and make a profit. A change in any of the forces normally requires a business unit to re-assess the marketplace given the overall change in industry information. The overall industry attractiveness does not imply that every firm in the industry will return the same profitability. Firms are able to apply their core competencies, business model or network to achieve a profit above the industry average. A clear example of this is the airline industry. As an industry, profitability is low and yet individual companies, by applying unique business models, have been able to make a return in excess of the industry average. Porter's five forces include - three forces from 'horizontal' competition: threat of substitute products, the threat of established rivals, and the threat of new entrants; and two forces from 'vertical' competition: the bargaining power of suppliers and the bargaining power of customers. This five forces analysis is just one part of the complete Porter strategic models. The other elements are the value chain and the generic strategies.

**Internal analysis (Strengths and Weaknesses):** The internal analysis should lead to an assessment of internal strengths/weaknesses that could be of competitive advantage/ disadvantage. In this case the intrinsic advantages and disadvantages of marketing information tool.

**External analysis (Opportunity and Threats):** The external analysis focuses on environmental characteristics that could produce opportunities as well as threats relative to competitive solutions.

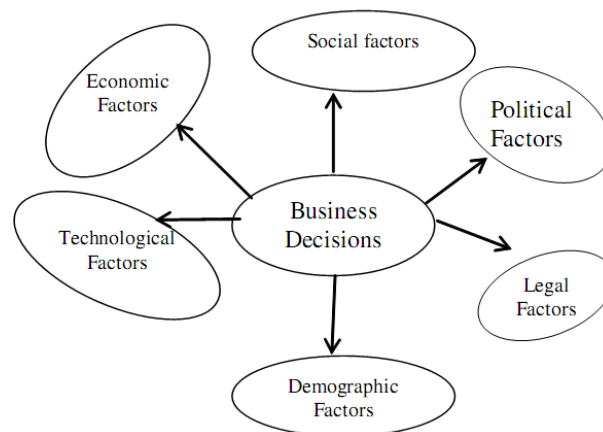


**Figure 2- SWOT Matrix with Internal and External Division and Strategy Steps**

Strengths and weaknesses are based on internal information from the organization; primarily acquired through employee surveys and feedback. Opportunities and threats are gathered from external information, primarily acquired through secondary sources. Secondary sources include looking at industry data, consumer surveys, competitors, environmental (of the market) data, and evaluating what resources, capabilities, assets, or processes the organization has or does not have. Including Internal and External levels of analysis and information is critical to move SWOT's findings into strategy; this is also reflected in a supplemental model depicted in Harvard Business Essentials (Figure 3).

**Meaning of Business Environment:** As stated earlier, the success of every business depends on adapting itself to the environment within which it functions. For example, when there is a change in the government policies, his business has to make the necessary changes to adapt it to the new policies. Similarly, a change in the technology may render the existing products obsolete, as we have seen that the introduction of computer has replaced the typewriters; the colour television has made the black and white television out of fashion. Again a change in the fashion or customers' taste may shift the demand in the market for a particular product, e.g., the demand for jeans reduced the sale of other traditional wear. All these aspects are external factors that are beyond the control of the business. So the business units must have to adapt themselves to these changes in order to survive and succeed in business. Hence, it is very necessary to have a clear understanding of the concept of business environment and the nature of its various components. The term 'business environment' connotes external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise (Mustapha and Ekpunobi, 2011). These include customers,

competitors, suppliers, government, and the social, political, legal and technological factors etc. While some of these factors or forces may have direct influence over the business firm, others may operate indirectly. Thus, business environment may be defined as the total surroundings, which have a direct or indirect bearing on the functioning of business.



**Figure-3 Business Environment**

It may also be defined as the set of external factors, such as economic factors, social factors, political and legal factors, demographic factors, and technical factors etc., which are uncontrollable in nature and affects the business decisions of a firm (Tuanmat and Smith, 2011).

**Features of Business Environment:** On the basis of the above discussion the features of business environment can be summarized as follows.

- (a) Business environment is the sum total of all factors external to the business firm and that greatly influences their functioning.
- (b) It covers factors and forces like customers, competitors, suppliers, government, and the social, cultural, political, technological and legal conditions.
- (c) The business environment is dynamic in nature that means, it keeps on changing.
- (d) The changes in business environment are unpredictable. It is very difficult to predict the exact nature of future happenings and the changes in economic and social environment.
- (e) Business Environment differs from place to place, region to region and country to country. Political conditions in India differ from those in Pakistan. Taste and values

cherished by people in India and China vary considerably.

**Importance of Business Environment:** There is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively. As stated above, the business environment is multifaceted, complex, and dynamic in nature and has a far-reaching impact on the survival and growth of the business. To be more specific, proper understanding of the social, political, legal and economic environment helps the business in the following ways:

- (a) **Determining Opportunities and Threats:** The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.
- (b) **Giving Direction for Growth:** The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.
- (c) **Continuous Learning:** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.
- (d) **Image Building:** Environmental understanding helps the business organisations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power.
- (e) **Meeting Competition:** It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly.
- (f) **Identifying Firm's Strength and Weakness:** Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments

**CONCLUSION:**

Firm capabilities will be found not to be statistically significant moderators on the external environment in Delhi. The independent effect of firm capabilities indicates statistically significant effect of human resources, marketing, manufacturing technology,

research and development and management information systems on strategic responses. Results further show existence of positive correlations between external environment dimensions and some strategic response variables. The results support both open systems and industrial organizations theory and partially supported dynamic capability theory the structure conduct performance and dynamic capabilities are the main theoretical beneficiaries. The study contributes to knowledge in the field of strategic management by establishing effects of firm capabilities through moderation on the firm's external environment in Delhi. This study to monitor the crucial performance drivers in their firms with regard to capabilities and strategic responses in Delhi. The study suggests future directions in small and medium enterprises as well as other firms in Delhi. The study has offered direction for policy makers and the owners of the manufacturing firms. Areas for further research have been highlighted for context and other variables and performance indicators to be tested.

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