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Evaluating a Firm's External Environment in Delhi

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Abstract – Firm's Environment means the external forces influencing the business decisions. They can be forces of economic, social, political and technological factors. These factors are outside the control of the business. The business does not have any control over them hence it cannot change them. The term Firm's External Environment refers to the aggregate of all the forces, factors and institutions which are external to and beyond the control of individual business enterprises and their management; but which influence their functioning. Thus Firm's environment may be defined as all those conditions and forces external to a business unit under which it operates. Business Environment is the environment surrounding a business – including the opportunities and risks inherent in selling a product or service in the surrounding environment in Delhi. Developing a strategic plan can seem like an overwhelming task, but the best place to start is by defining what strategic planning is. The strategic planning is quite simple-the process of envisioning a future and translating this vision into defined goals, objectives, strategies, and tactics. To survive in business, organizations have to make tough decisions and create "battle plans" for success. It is hard to accomplish anything without a plan, but if you don't understand strategic planning, clarifying the basics is a great way to start. The purpose of strategic or long-range planning is to assist an organization in establishing priorities and to better serve the needs of its constituency. A strategic plan must be flexible and practical and yet serve as a guide to implementing programs, evaluating how these programs are doing, and making adjustments if necessary in Delhi.

Keywords: Evaluating, Firm's, External Environment, Delhi, Business, Economic, Social, Political, Management, Opportunities, Risks, Service, Developing, etc.

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INTRODUCTION

Organizations are increasingly applying the practice of strategic planning in anticipation of improved performance. The studies have focused on the direct relationship between strategic planning and performance and did not give attention to the specific steps that make up the strategic planning process. The main purpose of the study to examine the relationship between the strategic planning process and firm's performance. The manner and extent to which each of the steps is practiced could have implications on the expected strategic planning results. This research paper examines the relationship between strategic planning and firm performance giving attention to the strategic planning steps. Correlation analysis is applied to find out the relationship between strategic planning and firm performance. This research paper also emphasis on finding the correlations between the strategic planning steps and company's performance.

Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy. It may also extend to control mechanisms for guiding the implementation of the strategy. Strategic planning became prominent in corporations during the 1960s and remains an important aspect of strategic management. It is executed by strategic planners or strategists, who involve many parties and research sources in their analysis of the organization and its relationship to the environment in which it competes (Erica Olsen, 2012). argued that the framework for formulating and implementing strategic is the formal strategic planning system (Frederic, et. al., 2011) Advocated that strategic planning has intrinsic values that translate into firms improved performance. The studies on the relationship between strategic planning and firm's performance were conducted in between 1970s and 1990s and focused on the direct relationship between the strategic planning and firm's performance. It is noted that the past studies did not give attention to the individual steps that make up the strategic planning process. It is perceived that the manner and extent to which each of the strategic planning steps is addressed could have implications on the realization of the expected corporate goals. Hence, it is important to study the relationship between strategic planning and firm's performance. This study set out to examine the relationship between strategic planning and firm performance.

This study made an attempt towards finding answers to the research questions:

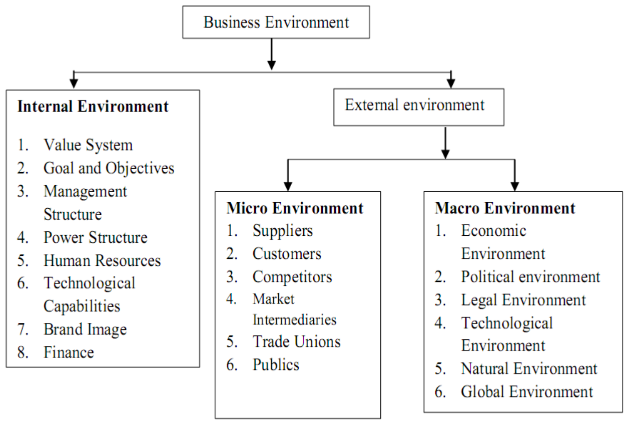
1. Is there a link between strategic planning and firm performance given different contexts? And
2. Is there a link between the strategic planning steps and firm performance?

Therefore, there are two main objectives in this study. First we examine the relationship between strategic planning and firm performance and thereafter examine the relationship between strategic planning constituent variables and firm performance.

REVIEW OF LITERATURE:

The process of strategic planning shapes a company's strategy choice. It reveals and clarifies future opportunities and threats and provides a framework for decision making throughout a company. It helps organizations to make better strategies through the use of more systematic, logical and rational approach to strategic choice. It is argued that strategic planning results in a viable match between the firm and its external environment. Strategy concerns an analysis of the firm's environment, leading to what the firm, given its environment, should achieve. Environmental scanning and analysis allows the firm to be connected to its environment and guarantees the alignment between the firm and its environment. Environmental analysis reveals the market dynamics, business opportunities and challenges, customer expectations, technological advancements and the firm's internal capacities and this provides the basis for strategy selection. It is conceptualized that firms that have effectively embraced strategic planning, records better performance as compared to those that have not. Various empirical studies have been done to establish the relationship between strategic planning and firm performance (Babette & Craig, 2008).

Components of Business Environment: Business environment consists of internal and external components. Internal environment is defined as the one which can be controlled by the firm. Thus, a firm can bring changes to its internal environment according to the need. External environment can be further divided into micro environment and macro environment. Micro environment is also known as the immediate environment or work environment of the firm. Macro environment on the other hand is common to all the firms existing in an economy (Edmund, 2000). Components of external environment are beyond the control of the firm. It is believed by many experts that only the components which are beyond the control of a firm form the business environment. The components of internal and external environment are given in the following chart.



Importance of Business Environment: Business environment is the surrounding for the firm in which it operates. Clear understanding of the business environment is essential for the following reasons – a) Identification of opportunities b) Identification of threats c) Adapting to fast changes d) Enhancing performance

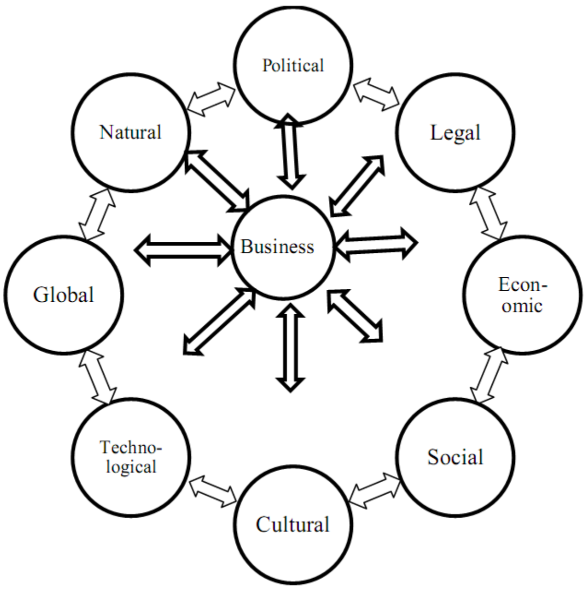
a) **Identification of opportunities:** For identifying the opportunities and getting the benefit of being first in that particular business or getting the first mover advantage. If a firm is able to identify the opportunities existing in the business environment early it will help the firm to be the first to exploit them instead of losing them to competitors. For example, Tatas with their Nano became the leader in the small and cost effective car market because it was the first to recognize the need for these small cars in India.

b) **Identification of threats:** Firms can identify threats in the business environment and develop an early warning system. For example any Indian firm finds that a government of India is allowing the import for the product which is produced by the firm and shrinking Indian market it should give a warning signal and Indian firms can meet the threat by adopting strategies such as improving the quality of the product, aggressive advertising and reducing cost of the production etc.

c) **Adapting to fast changes:** Weather a firm is large scale, medium scale or small scale, they are facing a business environment which is dynamic and where changes are taking place rapidly. For coping up with these significant changes effectively the firms must understand and examine the environment and develop suitable strategies for future.

d) **Enhancing performance:** if a firm is continuously monitoring its environment then it can identify the strong and weak signals from the environments and on the basis of these signals it can formulate the strategies for suitable business practices. These strategies will not only to only improve their present performance but also continue to improve their business in the market for a longer period.

Interdependence of business and environment: Business and its environment are mutually dependent. A business continuously interacts with its environment. Business takes inputs such as raw materials, capital, labour, energy etc., from its environment and transforms them into goods and services and then sends them back to the environment. Therefore there is a constant movement of back and forth between environment and business (Robert, 2002). Business and its external environment interact in three ways - exchange of information, exchange of resources and exchange of influence and power. Social and cultural factors such as people's attitude to work, marriage, religion, education and ethical issues have impact on any business unit. The above factors affect the nature of goods produced, the kind of services provided and the types of employees working in the organisation and its interaction and services to the society.

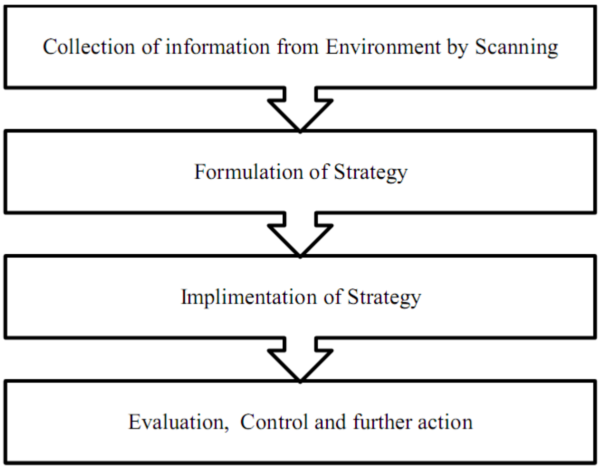


It can be seen that business is the product of different environmental factors. There is a reciprocal relationship between business and environment. It implies that business is influenced by the surrounding environment and in turn the environment is influenced by business as well. As seen in the chart above political and legal environment have direct impact on economic environment and economic environment in turn affects political and legal environment. Similarly, all the components of environment are in constant interaction with one another and with business (Teignmouth, 2010). All the players are interdependent and they bring about changes in each other. It should be noted that all environmental factors are in a continuous process of change. In the same way business is also changing continuously. A single firm may not be able to exert pressure on the environment. However, a cluster of business can positively change the environment in its favour. Thus we may conclude that both business and the environment are interdependent.

Favorable Environment: There is lot of ambiguous and unwanted information in the environment. How can a firm extract the relevant information which will make the environment favourable to the firm? By analysing the total environment the firm can collect information related to its environment. The process of arriving at the favourable environment includes following three elements. They are

- The enacted environment,
- The domain and domain consensus, and
- The task environment.

Enactment Environment: When an organisation creates its own environment out of the total external environment it is known as enacted environment. An organisation creates relevant environment for itself by aggressively scoping, narrowing and scanning the information existing in the external environment. Thus the enacted environment is a response to external environment. Enacted environment is a mechanism by which an organisation tries to cope with the eternal forces of environment. Domain and Domain Consensus: Domain is the integral part of the enacted environment therefore an organisation tries to have its own environment (Markus, 2012). It is as though an organisation creates for itself a particular environment to operate. Under the domain environment a firm tries to offer range of products, demographic distribution and various services. On the other hand domain consensus is reached when different stake holders such as owners, employees, customers, government, public, suppliers and lenders are brought under a common umbrella. In case of lack of domain consensus, conflicts regarding parts of the environment which should be monitored can arise. This will lead to confusion and dissatisfaction, which ultimately would lead to unexpected occurrence from a poorly monitored sector. Task environment: It means the various spectrums of products and services offered in the market and type of technology used. A firm has to take into account the various forces operating in the global arena. A firm should maintain continuous vigilance so that the interest of the firm can be protected.



The favourable environment would mean a through grasp of the existing and future changes that may take place in the environment. It is of paramount importance for an organisation that it should be aware of the present environment and at the not to lose sight of future changes. Knowledge of environment is helpful in formulating strategies and decision making. The knowledge of environment must be fully utilised for decision making process. A firm having vast knowledge of the environment in which it is operating has strategic advantage over other firms which do not have such knowledge. The analytical knowledge helps in creating out of box thinking in an organisation. Knowledge of environment helps the decision makers to anticipate opportunities and prepare themselves for optimal response. Environmental analysis provides early warning to the organisation regarding threat as well as opportunities. An organisation which has the knowledge of the environment is more effective is strategy formulation. If a company fails to do environment analysis then it will have negative consequences. According to William F Glueck and Lawrence R Jaunch, "Environmental analysis and diagnosis give strategists time to anticipate opportunities and to plan to take optional responses to these opportunities. It also helps strategists to develop an early warning system to prevent threats or to develop strategies which can turn a threat to the firm's advantage."

CONCLUSION:

Over time the concept and practice of strategic planning has been embraced worldwide and across sectors because of its perceived contribution to organizational effectiveness. Today in Delhi firms from both the private and public sectors have taken the practice of strategic planning seriously as a tool that can be utilized to fast track their performances. Strategic planning facilitates effective organization performance in terms of financial and non-financial indicators. The overall study objective is to formulate a broad planning and development framework setting out guidelines and standards for more effective and comprehensive strategic planning, based on which conceptual process/steps would be prepared for application and assessment of broad impacts and implementation mechanisms in Delhi. Correlation analysis is applied to find out the relationship between strategic planning and firm performance in Delhi.

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