

## THE SEVENTH ELEMENT OF BUSINESS

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### Abstract

Macro environment of business consists of six elements - Economic, Political/Legal, Socio-Cultural, Demographic, Technological and Global environment. However, due to the growing significance of climate change as a macro-environmental factor for businesses, it should also be considered as one of the elements of the macro environment of business. The importance of Climate change as an element of the macro environment of business enterprise cannot be denied and we would discuss this from the entrepreneurial perspective taking into account the strategic ramification it has for the entrepreneurs of this generation. To expand the discussion we would have to consider entrepreneurship and strategy management in one continuum. For which we would have to restrict the boundaries of both the fields of study. Further we would qualify climate change as an integral part of the macro environment of business by comparing it with the other elements of the macro environment of business. We would end by providing justification to this research project so that including climate change as an element of the macro environment of business would become a logical choice for today's entrepreneurs.

The following article is to present the importance of Climate change as an element of the macro environment of business enterprise. Therefore, we would be dealing with the fields of strategic management and entrepreneurship together. Entrepreneurship is as observable as is strategic management. Many theories have been propounded in each field of study and to observe them from a research point of view it is imperative to circumscribe the subject itself<sup>1</sup>. In our case we would be working with both of them together and thus would require seeing both the fields in a single continuum and studying them in a context that would allow the research to yield an acceptable outcome.

**Key Words:** Macro environment, continuum and characteristics

### **Introduction**

Macro environment of business consists of six elements - Economic, Political/Legal, Socio-Cultural, Demographic, Technological and Global environment<sup>2</sup>. The premise is based on the fact that entrepreneurs have to continuously deal with these elements, whether it is incepting an enterprise or furthering it; whether incepting an idea or nurturing it; whether expanding the business or closing it. There are situations in which the entrepreneur is able to modify his environment, say in case of corporate entrepreneurs like GE in US or Reliance in India; however they also cannot escape from dealing with it. The above mentioned elements of the macro environment cannot be neglected. They constitute as the elements of macro environment of business because they all display some common characteristics.

### **Characteristics of the elements of macro environment<sup>1</sup>:**

**Regulatory influence:**

Businesses have to operate within the boundaries of the environment. If law of the land prohibits sales and consumption of liquor, then no matter how lucrative the business may seem entrepreneurs cannot enter into this business (legally). If the culture of a country is to start the day with hot and savory breakfasts, then you can't expect large parts of the population to start consuming dry cornflakes, even more so when the economics for the consumer does not make the right trade-off.

**Offer opportunities:**

As and when policies change new opportunities are thrown at entrepreneurs. Lowering of interest rates by banks has a positive impact on the sales of houses, white goods and businesses running on debt capital. There by making businesses more attractive for entrepreneurs.

**Pose threats:**

Changes in economic conditions can pose serious threats to businesses. The whole IT industry was under stress and there are some players who are still feeling the heat of the Global financial crisis which is still continuing and the Dollar devaluation that was witnessed a year ago.

**Premise for strategy formulation:**

Organizations formulate their strategies based on the premise of the environmental variables and their impact. A break-through technological advancement in the industry would prompt players in the industry to adopt the new technology as part of their strategy. Battery operated two-wheelers are an example. Opportunities and threats will also prompt strategy modification or re-definition, again attributed to the elements of the macro environment.

Earlier text written on macro business environment talked about only five elements. Global business environment has only found importance in the recent past. However, from the perspective of very small size businesses, like a barber shop, or a pawn shop round the corner, it is of little significance. The significance though, cannot be over-looked. 'We live in a Global village', 'The major point of discussion in Indo-US trade relations is the trade policy of China'; and 'Can we replicate the European Union, here in Asia?' are burning issues and very alive. Explaining the six further is not required as a lot of research has already been undertaken on them. However, we have been completely oblivious to the fact that a new element has been growing in significance. It had been affecting the way businesses have operated for centuries and is still transforming many. The only difference is that now its influence is being felt more than ever before. It is because the footprint of this element is becoming stronger by the day. Negative or positive, but climate or better put, climate change is affecting normal lives and businesses alike.

**Impact of Climate**

In order to discuss the impact of climate we need to divide the effects of climate into two stages.

**Seasonal Impact**

Many a businesses have felt the seasonality in their operational scale. Agriculture, tourism, pharmaceuticals are some of the industries where the seasonal effect of business is prominent. Especially in case of India as a market, we are governed by variations in business operations because of seasonal change as well as festivities. However, we would restrict our discussion to the seasonal impact of climate. Though our governments have been claiming of a plethora of infrastructural amenities to our agriculture industry, namely irrigation water supply, still a large part of the farming population depends on the Rain-Gods. A small deviation in the rain pattern abates the agriculture output or in a worst case renders the industry into tatters. Winters are the

season for tourism industry as well as for the pharmaceutical industry to see an upsurge in the activities.

### **Abrupt climate change**

Where change of weather had an impact on businesses forever, now the effects of climate on business are becoming more and more apparent as the World is witnessing climate change. Climate change does take place all the time, however, it does not affect human life or businesses when it over a period of 100-200 years. But in our present situation we are facing what is an abrupt climate change. This can be compared to taking a heavy boulder up a slope and letting it fall on the other side of the slope, at a speed much faster than the speed of pushing the boulder up the slope. What we are essentially seeing is that the climate has crossed a threshold beyond which it has entered into a new state, much faster than the time taken by the events that caused it to go over this threshold. Normal Business cycles are being disturbed. Winters awaited in October show-up only in December and peak in January, where they earlier used to peak in December. And we don't need a written proof for the same. We are all witnessing this change. For the past decade or so, each year the monsoons have successfully surprised us like some competitive exam. We all have seen a change in their onset time and the rain-fall patterns. Dry places are becoming drier<sup>5</sup>. This is very bad news for industries of these areas, which are water intensive. GHG have lead to Global warming which is further leading into ever graver issues like precipitation<sup>6</sup>, rising sea-levels and Global dimming<sup>7</sup>. Flash floods are so common to come by, that too in dry areas<sup>8</sup>. We have discussed in the introduction that the elements of macro environment of business have some common characteristics. Let's see if they hold true for climate change or not.

### **Regulatory Influence:**

It has been observed that a host of businesses have operated under the seasonal effect of business. To name a few – agriculture, pharmaceuticals, tourism; these businesses are directly influenced by climate and climate change. There are many other businesses which are indirectly influenced by climate change. The awareness regarding climate change has lead to political focus into the issue. Governments individually and jointly are making efforts towards conserving the environment by alleviating the issue of climate change. Kyoto Protocol is a joint commitment by 181 nations towards this cause which is fast becoming a regulatory issue for businesses operating in the nations, who have ratified it<sup>9</sup>. In case of India, government intervention can be seen from the fact that the ninth Five-year plan, which ended in 2002, focused on the requirement to have “environmental sustainability of development through social mobilization and participation of people at all levels<sup>10</sup>”. Year 2002 was also the year that India ratified the Kyoto Protocol. Some obvious examples can be the introduction of Euro-II norms of pollution control, PUC certified vehicles, rolling back of successful bikes like Yamaha RX100 from the market, because they did not comply with the GHG emission norms. And therefore, we see that now industries will have to work with production processes and products which do not infringe the pollution norms.

### **Offer opportunities:**

The situation seems to be so grim. How can climate change offer opportunities. Carbon credits is being used by many a businesses as a mode of revenue generation<sup>11</sup>. Where NGOs are treating the issue as a social cause, there are others looking into it as a business opportunity.

Water is going to be the next scarce resource and some governments are already planning to privatize this natural commodity in public hands<sup>12</sup>. Revenue generation through supply of drinking water is known to everyone. Mineral water and packaged drinking water supply is a growing business. Further more if we were to delve into the financials of the daily house-hold water supply and waste water management businesses we would be able to understand the magnitude of these opportunities. We all understand this that the crisis of climate change has risen out of energy utilized from fossil fuels. And since energy has given rise to the issue, the issue will also be solved through energy. The use of renewable sources of energy is fast catching up as an economical and eco-friendly way of doing business, and the businesses involved in helping other businesses fulfill this strategic goal are some of the fastest growing businesses today. Tulsii Tanti's Suzlon is a case in point. There are many more and many more are still coming up.

### **Pose threats:**

The threats faced by man-kind itself are so severe that entrepreneurs around the World are making a careful note that in whatever they are doing the carbon footprint is kept at a minimal level. This in turn is rendering parts of business as obsolete and in some cases the whole business. Furthermore some governments have become extremely active and at some parts of the World, government action to protect the environment has become a threat to certain businesses.

### **Premise for strategy formulation:**

With such fervor in efforts towards alleviating the climate change issue, organizations are looking into the matter as a source for guidelines to define strategy. Because if they do not take climate change into consideration while designing the strategy, the chances of success of the strategy reduce considerably. Sooner or later, either because of government action or through societal pressure the business will have to modify the strategy or re-define it completely. Some businesses like GE have already started reaping the fruits of going green and helping against climate change. The book *Green to Gold: How Smart Companies Use Environmental Strategy to Innovate, Create Value, and Build Competitive Advantage* by Daniel C Esty and Andrew S Winston, discusses strategies and cases where organizations have created value by adopting climate change as a premise for strategy formulation.

### **But Why?**

Acceptance of Climate change as an element of macro environment of business is analogous to the acceptance of the other elements of macro environment of business. We can say that entrepreneurs would only accept climate change and their responsibility towards it to the extent that they are able to make a profitable trade-off. Otherwise, the entrepreneur would want to escape from this element. Is it possible? How legal is child labour? But this part of the legal environment is flouted beyond doubt. Therefore, acceptance is just a matter of choice of the entrepreneur. And if we were to further research into the other elements of business environment, we would find that entrepreneurs are able to escape from each one of them. To extend the discussion further we can also say that for corporate enterprises, elements of the environment are not given, as they are for a start-up or to certain extent for a professional entrepreneur. The corporate entrepreneur can modify his environment to suit his need. However, they cannot escape dealing with it, just as no other entrepreneur can escape from

dealing with climate change.

The idea behind the discussion is that entrepreneurs of the new generation will have to consider climate change as an element of macro environment while considering a new venture. It will not only provide them with newer opportunities, but will also help them design a better future for them and the future generations. And doing so is not a responsibility it is an inherent task, because:

**“We do not inherit the land from our ancestors; we borrow it from our children”**

*-Native American folk wisdom.*

**Is *climate change* as an element of macro environment of business, expendable?**

If we are able to include climate change in the elements of macro environment of business we will not only make the study of environment clearer but will also be spreading awareness of this grave issue. Positive thought says that no matter how long it takes, but the problem can be brought under control. Therefore, do we then need to remove the climate change issue from the elements of the macro environment of business? No, we should learn from our history and not repeat it. And that will only happen if we stop the climate from reaching a stage undesirable for us and then keeping it like that. To sustain the climate after we have been able to save it, we need to practice processes and procedures which will not lead us on this path once again. Therefore, the place of climate change as an element of macro environment of business should be considered now and forever.

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