SCANNING OF EXTERNAL ENVIRONMENT: A STUDY OF PASSENGER CAR INDUSTRY OF INDIA

Dr. Mamta Rani

Assistant Professor (Contract)

IMS, Kurukshetra University, Kurukshetra

Haryana, India

ABSTRACT

Indian passenger car industry has started witnessing cut-throat competition since a decade or so. Inspite of the fact that market for this industry is growing leaps and bound, cut throat competition has ensured that models of various passenger car companies are becoming redundant sooner than expected; product life cycle is getting shortened and profits are dwindling. In addition to competition, other environmental factors like changing economic policies and legal compliances and factors such as recession are enhancing the challenges for this industry. The same has resulted into renowned companies like General Motors making an exit from the Indian market. The need of the hour for the passenger car industry of India is to scan external environment vigorously so as to avail the opportunities lying in it and overcome threats if any. The present paper has made an analysis concerning scanning of external environment by prominent passenger car companies of India.

KEYWORDS

External Environment, Passenger Cars

INTRODUCTION

Environmental scanning is the collection and use of information about events, trends, and relationships in an organization's external environment, the knowledge of which would assist management in planning the organization's future course of action. (Aguilar, 1967, Choo & Auster, 1993) Organizations scan the environment in order to understand the external forces of change so that they develop effective responses which secure and improve the position of the organisation in the future. They scan in order to avoid surprises, identify threats and opportunities, gain competitive advantage, and improve long-term and short-term planning (Sutton, 1988). To the extent that an organization's ability to adapt to its outside environment is dependent on knowing and interpreting the external changes that are taking place, environmental scanning constitutes a primary mode of organizational learning. Environmental scanning includes both looking at information (viewing) and looking for information (searching). It could range from a casual conversation at the lunch table or a chance observation of an angry customer, to a formal market research program or a scenario planning exercise.

Organisations today are facing unprecedented challenges in maintaining commercial survival and success. Due to the rapid changes happening in today's marketplace and emerging business practices, it is more likely for an organisation, to fall behind by not keeping up with trends of the external environments (Albright, 2004). Environmental scanning, acts as "the first link in the chain of perceptions and actions that permit an organization to adapt to its environment" (Hambrick, 1981; Jennings & Lumpkin, 1992), has become an important aspect of strategic management for coping with environmental uncertainties, and the impact of environmental scanning to organizational performance.

Choo (2001), Scanning or browsing behavior is influenced by external factors such as environmental turbulence and resource dependency, organizational factors such as the nature of the business and the strategy pursued, information factors such as the availability and quality of information, and personal factors such as the scanner's knowledge or cognitive style. Thus, many research studies on scanning investigate the effect of situational dimensions, organizational strategies, information needs, and personal traits on scanning behavior.

LITERATURE REVIEW

Aaker (1983) pointed out that environmental scanning should focus on target information needs, allocate effort among employees exposed to relevant information, and have an effective system for storing, processing and disseminating information. According to Daft and Weick (1984), the way an organisation deciphers its environment in order to learn from it may be divided into three phases: scanning (information seeking), interpretation (giving meaning to the collected data) and learning (taking action based on the data). Similarly, Lester and Waters (1989) define environmental scanning as a management process of using information from the environment to aid decision-making with three key components: obtaining the information, analyzing the information and using the information. From time to time, organizational environments undergo catastrophic upheavals which lead to changes that are so sudden and extensive that they alter the trajectories of entire industries, overwhelm the adaptive capacities of resilient organizations, and surpass the comprehension of seasoned managers (Meyer et al., 1990). While the environment of an organization is composed of an infinite set of elements outside the boundaries of the organization, other organizations, associations of individuals, and broad forces represent important segments of the organization's environment (Osborn and Hunt, 1974). Therefore, as the pace of changes in external environment accelerates, organizations' survival increasingly depends on devising entrepreneurial responses to unforeseen discontinuities (Huber, 1984). Osborn & Hunt (1974) had observed that the literature on the environment of an organization and its direct and indirect impact upon organizational processes and outcomes is in a formative state. Even though Osborn and Hunt (1974) observed that there has been little agreement beyond the need for organizations to adjust to changes in the environment in order to be effective, a number of subsequent studies with firm/organizational/corporate performance as a dependent variable have treated the external environment as one of the independent constructs (Lenz, 1980; Lenz, 1981; Prescott, 1986; Kim and Lim, 1988; Venkatraman and Prescott, 1990; Marlin et al., 2, 1994; Kotha and Nair, 1995; Luo, 1995; Simerly and Mingfang, 2000 among others). Therefore, studies that have exclusively linked external environment and corporate performance are rare or may not exist, yet performance is contingent upon organizations' appropriate alignment with environmental changes. A distinguishing characteristic of the strategic management discipline is the

emphasis it places on the firm's competitive environment (e.g. Child, 1972). The environmental categorizations have been found to provide a fairly comprehensive though not exhaustive description of an organization's external environment (Porter, 2008; Pearce and Robinson, 2011). An organization must find a match or fit between the demands of its competitive environment and its internal management systems in order to survive and succeed (Venkatraman and Prescott, 1990). (Vincent N. Machuki & Evans Aosa, (2011) has the opinion that the various environmental aspects were ranked differently on the number of issues organizations need to deal with.

The literature on adoption of innovations has mostly focused on the factors affecting adoption and diffusion. One of the factors that affect technology adoption and diffusion includes the environment context (Scupola, 2003; Tonartzky and Fleischer, 1990). The environment context includes the external actors and factors that affect a company's decision to adopt a technology, either directly or indirectly. These may include customers, competitors, market, government or economy. The external environment comprises the industry (suppliers and customers), the competitors, and dealing with regulatory bodies such as the government (Tonartzky and Fleischer, 1990). Scupola (2003) stressed that the competitors, the suppliers and the customers can exert direct or indirect pressures on SMEs to adopt new technology. Hence the dynamics of external environment force the organization to adopt the strategies or course of action as per the need of the hour to survive in the industry if the organization fails to do so there become a question mark on the existence of the organization. In the same course of action the present paper make an insight on the scanning of the external environment by three prominent players of Indian passenger car industry.

OBJECTIVES

The study seeks to attain following objectives:

- To know the extent to which selected passenger cars indulge in environmental scanning.
- To see if there exists a difference in the attitude of selected passenger car companies concerning scanning various environmental sectors.

- To give some practicable suggestions to the selected banks so that their environmental scanning techniques will be improved in effective and efficient manner.

HYPOTHESIS

Keeping in mind the objectives of the study following hypothesis has been tested:

- There is no significant among the selected passenger car companies concerning the extent to which these scan various environmental sectors.

RESEARCH METHODOLOGY

This is an empirical study. Both primary and secondary data have been used by the researcher to arrive at necessary conclusions. The primary data have been collected to compare the various environmental sectors as scanned by three passenger car companies. For this the researcher made the use of a structured questionnaire addressed to top managers (37 of Maruti Suzuki India Ltd. (MSIL), 42 of Tata Motors Ltd. (TML) and 41 of Hyundai Motors India Ltd. (HMIL)) of the three chosen passenger car companies. The secondary data incorporated in the research is the outcome of literature reviewed on environmental scanning from various published and unpublished reports/journals and books etc. The data so collected have been analysed with the help of SPSS software using various statistical techniques like mean, standard deviation, ANOVA, post hoc analysis etc. and presented with the help of appropriate statistical tables.

THRUST OF THE STUDY

The thrust of the study is on the following external environment sectors as discussed in fig. 1
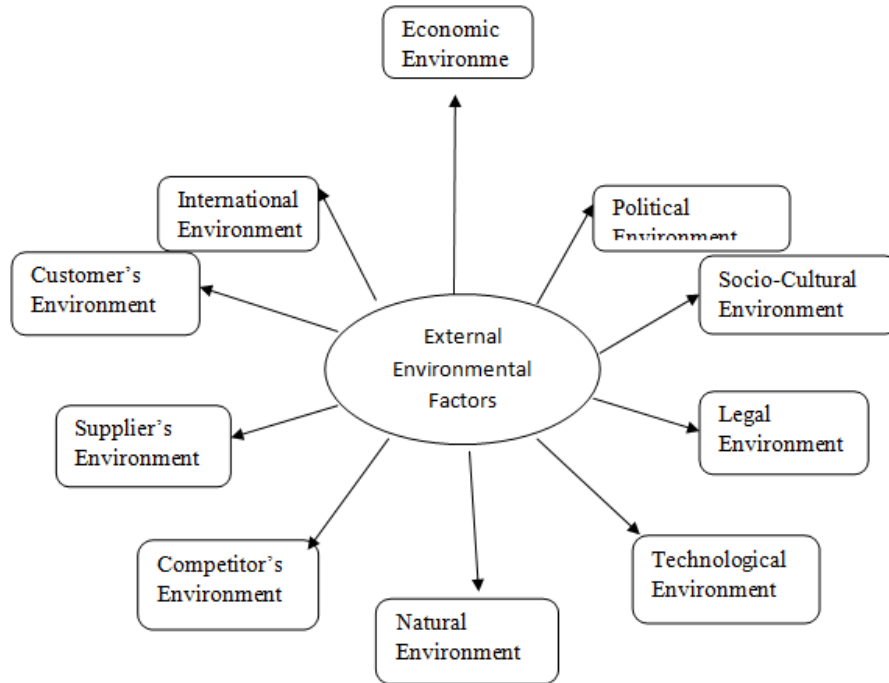
Fig.1: External Environmental Sectors

Economic Environment: This consists of the economic factors that have effects on the working of the business. It includes system, policies and nature of an economy, trade cycles, economic resources, level of income, distribution of income and wealth. It is very dynamic and complex in nature and does not remain the same.

Political Environment: This is defined as the state, government, institutions and laws together with the public and private stakeholders which operate and influence that system. Business managers have to pay attention to the political environment to see how government actions influence their business. Political environment also includes the political culture which are views held about what governments should act with relation to its citizens.

Socio- Cultural Environment: Socio Cultural Environment consists of factors related to human relationships and the impact of the social attitude and cultural values on the business of the organization. The beliefs, values and norms of a society determine how individual and organization should be interrelated.

Legal Environment: Legal Environment consists of the laws which are passed by the government for business operation.

Technological Environment: Technological Environment means the development in the field of technology which affects business by new inventions of the productions and other improvements in techniques to perform the business.

Natural Environment: Natural environment defined as the natural activities affecting the business activities like earthquakes, storms, droughts and other major weather induced events. This also includes the physical resources available to society, businesses and government.

Competitor's Environment: A competitor environment is that where there are several similar firms that are competing for the same market segment. The firms normally produce products of the same nature and form and whose uses are more or less the same. However, because of the competition that exists for the market, these firms are likely to differentiate their products to endear them to a larger number of consumers compared to their rivals.

Supplier's Environment: This consists up of business entities which mainly support other business entities by means of supplying a particular commodity or service to the said business that they are in contract with.

Customer's Environment: Customer environment consists up of factor the manner in which the customer behave and react to a particular situation, likes and preferences of the customer etc.

International Environment (Including WTO, IMF): International Environment includes the interaction between foreign environmental forces like policies of WTO, IMF, UNO and other international bodies on the business activities of an enterprise.

ANALYSIS AND INTERPRETATION

Economic Environment

Table 1 indicates that economic environmental scanning is amongst the top-most priority of the Indian passenger car industry. There is not much to choose among the selected passenger car companies as mean score obtained by them has varied between 4.78 (HMIL) to 4.85 (TML). These have not been found differing significantly by ANOVA also. The managers of all the companies opined that factors such as economic policies, boom or recession in the economy, inflation rate etc. are having a bearing on their business and hence are routinely scanned.

Political Environment

Table 1 indicates that political factors such as political structure, ideology and stability etc. are seemingly less influencing Indian passenger car industry. It is perhaps HMIL only (average score of 3.6) that is found paying some attention to its scanning. This is certainly not a bad sign and gives us hint that political interference in the Indian business is not as pronounced now. As HMIL has got higher mean score than other two, ANOVA has indicated significant difference among the selected passenger car companies.

Socio-Cultural Environment

With mean score in proximity of 4, the selected passenger car companies have been found fairly focused towards scanning of socio cultural environment. The managers of the selected passenger car companies revealed that factors such as social class, social status etc. are thoroughly studied to know about the target market and taking decisions pertaining to market segmentation, positioning etc. ANOVA has not indicated significant difference among the selected car majors.

Legal Environment

With mean scores in excess of 4.3, all passenger car companies have been detected to be scanning external environment. Managers of all the companies revealed that laws pertaining to environmental protection, euro compliance etc. are duly studied by them,

Technological Environment

With mean scores nearing 5, the car majors have been found according top priority to scanning of technological environment. The managers of all the companies claimed that being a technology driven product, car having better technology can enjoy sustainable competitive advantage and hence its scanning is imperative. ANOVA once again could not detect difference among the selected passenger car companies.

Natural Environment

With mean scores lying between 2 and 3, scanning of natural environment is not accorded a priority by selected passenger car companies. This is bit surprising as environment deterioration can be avoided to some extent by studying the impact on it by vehicles. This can also be used as a CSR plank by the companies. There is definitely a scope for passenger car companies to give more weightage to its scanning.

Competitors Environment

Table 1 has indicated that with 4 plus mean scores TML and HMIL are more inclined towards scanning competitors environment in comparison to MSIL.MSIL being the market leader is perhaps bit complacent. This however should not continue for long as gap among various passenger car majors is dwindling sharply on the aspect of market share.

Suppliers Environment

Once again on this front too, MSIL is slightly behind its competitors. It has got mean score which is less than 3 while other two have got 4 plus mean scores. The managers of MSIL claimed that its suppliers are

almost permanent and acting as a sister concern to it. That's why it remains less inclined towards scanning of this environment. ANOVA has indicated significant difference among the selected passenger car majors on this front.

Customer Environment

With extremely high scores ranging between 4.62 and 4.75, all the passenger car majors have been found giving top priority to the scanning of customers' environment. This is perhaps the need of the hour too as customers are undisputed kings of the modern day business world.

International Environment

All the passenger car majors in general and HMIL in particular have been found paying attention to scanning of international environment. As all these are active in exports, this makes a sense too. With HMIL being more inclined in this regard, ANOVA has indicated significant difference among the selected players.

Table 1: Average Score Obtained on Extent of Scanning the External Environment Sector (Max.5) and Application of ANOVA

Environmental Variable	MSIL	TML	HMIL
Economic Environment	4.81	4.85	4.78
Political Environment	3.13	2.85	3.65
Socio Cultural Environment	4.13	3.92	4.12
Legal Environment	4.32	4.35	4.48
Technological Environment	4.70	4.80	4.82
Natural Environment	2.91	2.42	2.19

Competitor Environment	3.86	4.30	4.39
Supplier Environment	2.94	4.26	4.02
Customer Environment	4.62	4.66	4.75
International Environment	4.02	4.11	4.48

Environmental Variable	F Value	Significance
Economic Environment	.365	.695
Political Environment	7.948	.001*
Socio Cultural Environment	.885	.416
Legal Environment	.97	.382
Technological Environment	1.04	.357
Natural Environment	11.952	.000*
Competitor Environment	10.252	.000*
Supplier Environment	23.868	.000*
Customer Environment	.845	.432
International Environment	6.084	.003*

*The mean difference is significant at 0.05 level of significance

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