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Environmental Context Analyses for Integrated Agricultural Project (Dairy, Cattle Fattening and Milk Processing Plant), Hadiya Zone, Hossana Town, SNNPR, Ethiopia

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Abstract

Environmental analysis is a strategic tool. It is a process to identify all the external and internal elements, which can affect the organization's performance. The analysis entails assessing the level of threat or opportunity the factors might present. Every day the market is changing the way it is. Many new things are developed and in a matter of about some seconds, the whole scenario stands different in front of us. Among them, there are many things that we can control and then there are other things that fall beyond our control and those are called systematic factors. Systematic things happen in the ***environment*** *we live in, the environment that surrounds us and many times they greatly influence us. Businesses are also influenced by the environment that they are in and all the situational factors that determine circumstances from day to day. It is because of this, that businesses need to keep a check and constantly analyze the environment within which they run their trade and within which the market lays. Comprehensive operational research for evidence-based decision making is important aspect for adopting in the dynamically changing environment. In Hadiya zone, availability of human resources is abundant in terms of skilled and non-skilled labour. The environment is favorable in terms of market access and potential consumers for dairy products and political environment and commitment of the government is a bit challenging in terms of access to land.*

Keywords: *economic, social, political, environmental and technological factors.*

Introduction

A detailed analysis of the macro-environment or the environment as a whole is important for the entrepreneurs and the strategy builders to understand where the market currently stands and where it will head off in the future. The following are main macro-environment components that directly or indirectly affect business environment.

Political factors: These factors take into account the political situation of a country and the world in relation to the country. For example, what sort of government leadership is affecting what decisions of a country? All the policies, all the taxes laws and every tariff that a government levies over a trade falls under this category of factors.

Economic factors: Economic factors include all the determinants of an economy and its condition. The inflation rate, the interest rates, the monetary or fiscal policies, the foreign exchange rates that affect imports and exports, all these determine the direction in which an economy might move, therefore businesses analyze this factor based on their environment so as to build strategies that fall in line with all the changes that are about to occur.

Social factors: Every country is different and every country has a unique mindset. These mindsets cast an impact on the businesses and the sales of their products and services; therefore, environmental analysis includes these factors as well. The cultural implications, the gender and connected demographics, the social lifestyles, the domestic structures; all of these are studied by companies to understand the market and the consumer better.

Technological factors: Technology greatly influence a business; therefore, environmental analysis is conducted upon these factors too. Technology changes every minute and therefore companies need to stay connected along the way and integrate as and when needed. Also, these factors are analyzed to understand how the consumers react to technological trends and how they utilize them for their benefit.

Legal factors: Legislative changes occur from time to time and many of them affect the business environment. For example, if a regulatory body would set up a regulation for the industries, then that law would impact all the industries and business that strife in that economy, therefore businesses also analyze the legal developments happening in their environment.

Environmental factors: The location of countries influences on the trades that businesses do. Adding to that, many climatic changes alter the trade of industries and the way consumers react towards a certain offering that is launched in the market. The environmental factors include geographical location, the climate, weather and other such factors that are not just limited to climatic conditions. These in particular affect the agri-businesses, farming sectors etc.

Methodology

It is of little use to look at only the structure and the internal environment of an organization without giving full weight to the external environment in which a business has to conduct its operation. It is on this framework the study was conducted. Information collected from the existing similar firms and government of Ethiopia investment policy and other relevant documents and literature reviewed. The socio-cultural variables had almost highly influenced management decisions. These are variables like regional shifts in population, and growth of population. Many studies also show that productivity improvement had highly influenced by technological management decisions, while foreign trade regulation was found highly influencing political-legal management decisions. The literatures further revealed that globalization, liberalization, information technology and technological trends, and social responsibility were among the major key developmental issues in business environment influencing small-scale management decisions in any business firms. Based on the fact that any business organization natural trends of environmental influence and the influence of the business organization on the environment were reviewed from various literatures, firms project nature and policies to understand the context of the business environment.

Analysis and diagnosis of environment using five techniques

The techniques are: 1. SWOT Analysis, 2. Environmental Threat and opportunity profile (ETOP) 3. Forecasting, 4. Verbal and Written information 5. Management Information System.

Technique 1. SWOT Analysis

Each letter stands (S =stands for strengths, W=for weaknesses, O =for opportunities, and T=for threats).

SWOT analysis is the starting point to formulate a strategy

It is a technique of environment analysis which evaluates organization’s strengths and weaknesses, environmental opportunities and threats and helps to formulate strategies and achieve objectives by:

1. Exploiting organizational strengths,
2. Exploiting environmental opportunities,
3. Minimizing and correcting the weaknesses, and
4. Minimizing environmental threats.

SWOT analysis compares organization’s strengths and weaknesses (company profile) with external threats and opportunities (environmental analysis). A company profile depicts the quantity and quality of a company’s principal resources and skills. It seeks to determine the firm’s performance capabilities on the basis of its existing and accessible resources and skills and environmental analysis is the systematic assessment of information about the firm’s external environment during the strategic planning process to identify strategic opportunities for the company as well as major threats, problems, or other possible impediments.

SWOT analysis helps to make strategies which will overcome its weaknesses and utilize its strengths to gain competitive advantage in the market. Organizations conduct SWOT analysis to identify the factors that can improve their performance.

Objectives of SWOT analysis

(a). To compare company’s profile (strengths and weaknesses) with threats and opportunities in the product or market areas where it wants to compete. It highlights company’s strengths on which strategies will be based (to exploit environmental opportunities) and weaknesses that must be overcome.

(b). To compare company's profile with that of competitors. This highlight area where company has advantage or disadvantage over competitors in different product/market areas. Strengths and weaknesses reflect internal environment of the organization (company profile) and opportunities and threats reflect its external environment (environmental analysis).

(i). Strength is a positive attribute of the organization that enables it to accept environmental challenges and improve its competitive position. Organizational strengths can be Common strengths, and Distinctive competencies. Common strength is the organizational skill and capability possessed by other organizations also, distinctive competencies the organizational skill and capability possessed by a small number of competing firms. Such competence is not commonly possessed by all the firms. Organizations that exploit their distinctive competence perform better than competitors and attain high level of performance. SWOT analysis enables the organization discover its distinctive competence, make strategies to exploit its strengths, explore environmental opportunities and improve performance. **Internal strength** can be harmonious labor-management relations, optimum utilization of resources, high managerial skill, innovative ability, profitable functional areas, efficient Research and Development department, huge financial resources, competent staff, updated technology, high quality products etc.

(ii). Weakness is an attribute which restricts competitive strength of the organization. It restricts its ability to make effective strategies. Organizational weaknesses require change in objectives which can be achieved through present skills and capabilities or investment in capabilities to acquire organizational strengths. This enables the organization implement strategies that help to attain its objectives. Failure to overcome organizational weaknesses results in competitive disadvantages, that is, "a situation in which an organization is not implementing valuable strategies that are being implemented by competing organizations". Internal weaknesses can be high cost of production, poor functioning of departments, conflicts amongst superiors and subordinates, lack of managerial or innovative ability, obsolete technology, low financial reserves, long delivery times, inadequate **Research and Development** facilities, **poor staff etiquette** etc.

(**iii). Opportunities** are environmental challenges which improve organization's operational efficiency. They are the favorable environmental conditions. The external opportunities are: boom in the economy, development of new technology, growing markets, liberal government policies, government subsidies, accelerating market growth etc.

(iv). **Threats** are environmental challenges which weaken the organization's competitive position. They are the unfavorable environmental conditions. Some of the external threats are: recession in the economy, changing consumer preferences, new technology adopted by competitors, substitute products with high brand image or low cost, foreign competitors, increasing competition, political instability, economic downturn etc. The impact of four variables (S, W, O and T) on strategy formulation is depicted through a matrix

Internal factors Eternal factors	Internal strength	Internal Weakness
External Opportunities(O)	**SO strategy** (strategies to make use of opportunities through strength)	**WO strategy** (Strategy to make use of opportunities to minimise weakness)
External Threats (T)	**ST strategy** (strategy to prevent threats through strengths)	**WT Strategy** (strategies to minimise danger s in sectors where weaknesses match the threats)

SO is the most desirable strategy where organizations use their strengths to exploit environmental opportunities and convert environmental threats into opportunities. In the worst situation, company's weaknesses match the environmental threats. Organizations follow **WT** strategy to minimize their weaknesses, convert them into strengths and convert environmental threats to opportunities.

A brief description of four strategies indicated in the above matrix is given below for further understanding of their interlinkage in the business context analyses.

(a) SO strategy

Company uses its strengths to take advantage of environmental opportunities. Weaknesses are overcome and converted into strengths. Environmental threats are overpowered by opportunities.

(b) WO strategy

Company minimizes its weaknesses to maximize environmental opportunities by developing internal strengths or acquire the needed strength from outside (for example, adopt a new technology or seek the guidance of experts).

(c) ST strategy

The company maximizes its strengths (technological, financial, managerial etc.) to minimize environmental threats. For example, company can use technological developments to face competition in the market.

(d) WT strategy

The company minimizes its weaknesses and environmental threats. It may require restructuring of the firm.

Technique 2. Environmental Threat and Opportunity profile.

It is a technique of environment analysis where organizations make a profile of their external environment. It analyses information about environmental threats and opportunities and their impact on strategic planning process. It helps to identify strategic opportunities for the company. Environmental opportunities indicate new lines of business and threats restrain them from entering into new business lines. A firm that wants to manufacture shoes, for example, will prepare an Environmental treat and opportunity profile to analyses demand for shoes in the market, purchasing power of consumers, gender composition of market (male-female ratio), government regulations, technology used etc. On analysing the environment, if it finds there is demand for shoes, it will venture into this business.

Technique 3. Forecasting

Forecasting means predicting future events and analysing their impact on plans. Organizations analyses the environment by applying various techniques to forecast Government policies, sales, technological developments etc. and use that information to formulate plans and strategies.

Technique 4. Verbal and Written Information

Verbal information is collected by hearing and written information is collected by reading articles, journals, newspapers, newsletters etc. Common sources of verbal information are radio, television, work force, outsiders (consumers, suppliers, bankers) etc. It informs changes in the environment and prepares organizations to incorporate them in their plans and strategies.

Technique 5. Management Information System (MIS).

MIS is "a formal method of making available to management the accurate and timely information necessary to facilitate the decision--making process and enable the organization's planning, control and operational functions to be carried out effectively." MIS provides timely, accurate, concise, complete and relevant information based on computer technology about present and future environmental changes. It facilitates decision-making process and helps in making decisions based on future environment.

Result

Based on detailed analyses of the literature and contextualizing with the context of the situation on the ground in Hadiya zone, Hossana town in Ethiopia where the integrated agricultural project is initiated, there are multifaceted challenges in all aspects of the environment. The project owner initiated to start implementation based on the perceived economic feasibility after the assessment of the environment. The project faced enormous challenges from the inception due to lack of political commitment to facilitate basic resources such as land. After long challenges the entrepreneur established the project and passed through all the environmental evidenced challenges.

Discussions

The business environment means all of the internal and external factors that affect how the company functions including employees, customers, management, supply and **demand** and business regulations.

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. These include customers, competitors, suppliers, government, and the social, political, legal and technological factors etc.

Features of business environment

(a) Business environment is the sum total of all factors external to the business firm and that greatly influence their functioning.

(b) It covers factors and forces like customers, competitors, suppliers, government, and the social, cultural, political, technological and legal conditions.

(e) 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 Ethiopia differ from those in Kenya. Taste and values cherished by people in Ethiopia and Uganda vary considerably.

Importance of business environment analyses

(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 organizations 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 analyses 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.

Objectives of business

Every business enterprise has certain objectives which regulate and generate its activities. Objectives are needed in every area where performance and results directly affect survival and prosperity of a business.

Economic objectives of business

Economic Objectives of Business is basically an economic activity. Therefore, its primary objectives are economic in nature. The main economic objectives of business are as follows

(i) Earning profits
(ii) Creating customers
(iii) Innovations

Social objectives of business

Business does not exist in a vacuum. It is a part of society. It cannot survive and grow without the support of society. Business must therefore discharge social responsibilities in addition to earning profits. According to Henry Ford, "the primary aim of business should be service and subsidiary aim should be earning of profit." The socials objectives of business are:

(i) Supplying desired goods at reasonable prices
(ii) Fair Remuneration to employees
(iii) Employment Generation
(iv) Fair return to investor
(v) Social welfare

Human objectives of business

Business is run by people and for people. Labour is a valuable human element in business. Human objectives of business are concerned with the well-being of labour. These objectives help in achieving economic and social objectives of business. Human objectives of business include:

(i) Labour welfare
(ii) Developing human resources
(iii) Participative management
(iv) Labour management
(v) Cooperation

Competitive structure of business firms: Porters model

Threat of entry: Important common entry barriers are

(i) Government Policy
(ii) Economies of Scale
(iii) Cost Disadvantages
(iv) Independent of Scale
(v) . Product Differentiation
(vi) Monopoly Elements
(vii) Capital Requirements

Rivalry among existing competitors: Factors influencing the intensity of rivalry

(i) Number of Firms and their Relative Market Share, Strengths etc.
(ii) State of Growth of Industry.
(iii) Fixed or Storage Costs.
(iv) Indivisibility of Capacity Augmentation.
(v) Product Standardization.
(vi) Strategic Stake
(vii) Exit Barrier
(viii) Diverse Competitors
(ix) Switching Costs
(x) Expected Retaliation

Threat of substitutes

An Important force of competition is the power of substitutes. Substitutes limit the potential returns in an industry by placing a ceiling on the price firms in the industry can profitability charge. The more attractive the price performance alternative offered by substitute, the firmer the lid on industry profits.

Bargaining power of buyers

Important determinants of the buyer power, explained by Porter, are the following.

- The volume of purchase relative to the total sale of the seller.
- The importance of the product to the buyer in terms of the total cost.
- The extent of standardization or differentiation of the product
- Switching costs.
- Profitability of the buyer (low profitability tends to pressure costs down).
- Potential for backward integration by buyer.
- Importance of the industry's product with respect to the quality of the buyer's
- Product or services.
- Extent of buyers' information.

Bargaining power of supplier's important determinants

- Extent of concentration & domination in the supplier industry.
- Importance of the product to the buyer
- Importance of the buyer to the supplier
- Extent of substitutability of the product
- Switching costs
- Extent of differentiation or standardization of the product
- Potential for forward integration by suppliers.

Strategic groups

According to Porter, "a strategic group is the group of firms in an industry following the same or similar strategy along the strategic dimensions''. Normally, a small number of strategic groups capture the essential strategic differences among firms in the industry although one may even think of the extreme cases of an industry having only one strategic group on the one end and each firm in an industry amounting to a strategic group on the other end.

Implications of strategic groups: This concept has implications for industry analysis & identification of opportunities & threats. The following points indicates some important implications of strategic groups.

- A company's immediate competitors are firms within the same strategic group
- The nature and intensity of competition & business prospects vary from strategic group to group.
- High mobility barriers normally help insulate the group from new entrants and facilitate high profitability.
- Just like entry barriers, mobility barriers can change; & as they do firms often abandon

some strategic groups & jump into new ones, changing the pattern of strategic group.

- The competitive standing of the different strategic groups would be different with respect to each of the five competitive forces.

Environmental analyses and strategic management

Chandler describes strategic management as “the determination of the basic long-term goals & objectives of an enterprise & the adoption of courses and allocation of resources necessary to carry out these goals”. Strategic management or business policy is, thus, the means to achieve the organizational purpose. Environmental analyses and strategic management entitle.

- Formulation of Mission & Objectives
- SWOT Analysis
- Strategic Alternatives & Choice of Strategy
- Implementation
- Evaluation

Some areas of environment factors are summarized in the table below

<table>
<tr><td colspan="2">1. Market forces
The business environment analysis starts with the market forces area. What this area does it to assess the attractiveness, dynamics and challenges of the market. And your customers are at the core of it.</td></tr>
<tr><td>To identify</td><td>Question to answer</td></tr>
<tr><td>Market issues</td><td>What changes are underway?
Where is the market going to?
Example: market saturation in top-tier countries, emerging markets becoming more and more important.</td></tr>
<tr><td>Market segments</td><td>What’s the top customer segments (the group of people you aim to reach and serve)?
Where is the biggest growth potential?
Example: Distributors (B2B), end-customers (B2C). Big or small market segment? Mass market (mainstream consumers) niche.</td></tr>
<tr><td>Needs & demands</td><td>What do customers need?
What unsatisfied needs exist?
What do customers want to get done?
Example: large unsatisfied consumers’ needs in emerging markets</td></tr>
<tr><td>Switching costs</td><td>Is it easy for customers to find and buy similar offers?</td></tr>
<tr><td>Revenue attractiveness</td><td>What are customers willing to pay for?
Can they easily find cheaper products?</td></tr>
<tr><td colspan="2">2. Industry forces
This area helps to understand which position the company occupies vs. other companies that produce similar products/services. It’s roughly a SWOT analysis. Below are the exact questions need to be answered:</td></tr>
<tr><td>Competitors</td><td>Who are they? (Large and middle size players)
What do they do better than you?
What do you do better than them?
Which customer segments do they focus on?</td></tr>
<tr><td>New entrants</td><td>Who are they?
How are they different?
What advantages/disadvantages do they have?</td></tr>
<tr><td>Substitute products</td><td>Which product could replace yours?
How much does it cost compared to yours?
Is it easy for customers to switch to this product?</td></tr>
<tr><td>Stakeholders</td><td>Who can influence your business?
How influential are they?</td></tr>
<tr><td colspan="2">3. Key Trends</td></tr>
</table>

No one can be certain of what the future will look like. However, you can predict the general direction in which your business is developing. Key trends are just about that:	
Technology trends	What are the major tech trends / disruptions in and outside your market? Do they represent threat or opportunity?
Regulatory trends	What new rules/laws may affect your business?
Societal and cultural trends	Which shifts in cultural / societal values affect your business? Which trends can influence the buyer behavior?
Socio economic trends	What are the key demographic trends? What are the income distribution and key spending patterns in your market? Example: *growing middle-class in emerging markets*
4. Macro-economic Forces Which large-scale general economic factors can affect your business?	
Global market conditions	Is the economy booming or not? Example: *Consumer income and confidence level.*
Capital markets	How easy is it to obtain funding in your market? Is it costly to obtain funds? Example: *Venture capital, public funding, market capital, credit availability*
Commodities and other resources	How easy is it to obtain the resources needed to execute your business? Example: *Physical (buildings, manufactures) and human resources (is it easy to attract*

Conclusion

To create a competitive business model that works in your environment, you must be able to understand your business surroundings and how they're likely to evolve in the future. Of course, the future it's uncertain but it's possible to develop consistent strategies that are aligned with your environment and competitors. Continuously scan your business model's environment and map the changes happening in it. You'll be able to make more informed decisions, which will consequently lower the risk of making big, rookie mistakes.

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