

# A study on the Constraints Impacting in the Business Environment of South Asian Countries

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## ABSTRACT

*This article presents an insight into the business environment and some constraints of the modern world. The world of Business is different and complex. Operating environment may seem increasingly complex. Managing the business depends upon managing SWOT. Handling the strengths, opportunities, weakness and threats of any organization depends upon a thorough understanding of the environment and the constraints. The sampling methodology for Surveys is stratified random sampling with replacement. Four South Asian Countries, Bangladesh, Bhutan, Nepal and Pakistan have been analyzed with the statistics of INDIA vis a vis South Asia and the World. These countries have been selected since their economies and socio-cultural environments have close resemblances apart from geographical location and similar demographics. Ten parameters posing as constraints common for these countries have been taken for the study. This study helps in understanding the bottlenecks faced by these countries. Problem identification solves half the problem enabling business to grow.*

**KEYWORDS:** Business- Environment- Analysis-Requirement-Constraints-System

## Introduction

According to Albert Einstein: “You have to learn the rules of the game. And then you have to play better than anyone else.”

Business is a game, the greatest game in the world if you know how to play it.

- Thomas J. Watson

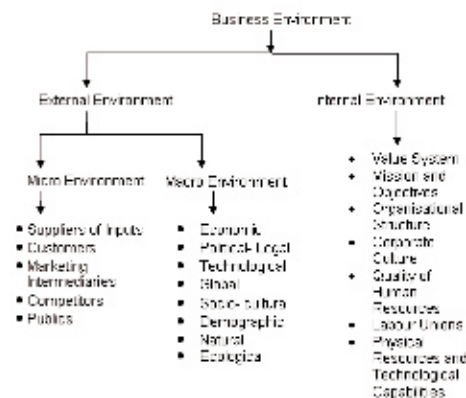
To succeed in business it is necessary to make others see things as you see them.

- John H. Patterso

Business Environment: A **business** (also known as **enterprise** or **firm**) is an organization engaged in the trade of goods, services, or both to consumers. Environment is the sum total of all surroundings of a living organism, including natural forces and other living things, which provide conditions for development and growth as well as of danger and damage.

Thus, business environment may be defined as the total surroundings, which have a direct or indirect bearing on the functioning of business. 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. The most important external factors include political, economic, social, technological environmental and technological factors (PESTEL).



### **Figure 1: Business environment factors- Internal and External**

**Source :** [http://www.kkhsou.in/main/EVIdya2/commerce/business\\_environment.html](http://www.kkhsou.in/main/EVIdya2/commerce/business_environment.html)

#### **Constraints**

A Constraint is any element factor or subsystem that operates as bottleneck. It may restrict a project, an entity, or a system (such as any manufacturing or any decision making process) from achieving its maximum potential (or higher level of output) with respect to its goal.

#### **Theory of Constraints (TOC)**

The theory of constraints (TOC) is an overall management philosophy introduced by Eliyahu M. Goldratt in his 1984 book titled *The Goal*, that is geared to help organizations continually achieve their goals. Goldratt adopted this concept within his book *Critical Chain*, published in 1997. Then the concept was later extended to TOC with a respectful title in publication in 1999. An earlier user of the concept was Wolfgang Mewes mentioned the word in his CV.

The underlying premise of theory of constraints is that organizations can be measured and controlled by variations on three measures: throughput, operational expense, and inventory.

- i. Throughput is the rate at which the system generates money through sales.
- ii. Inventory is all the money that the system has invested in purchasing things which it intends to sell.
- iii. Operational expense is all the money the system spends in order to turn inventory into throughput.

Theory of constraints is based on the premise that the rate of goal achievement is limited by at least one constraining process. Only by increasing flow through the constraint can overall throughput be increased. TOC puts forth straight that a company is limited by small constraints to achieve big goals.

TOC process seeks to identify the constraints and restructure the rest of the organization around it, through the use of five focusing steps.

#### **The five focusing steps**

Assuming the goal of the organization has been articulated (e.g., "Make money now and in the future") the steps are:

1. Identify the constraint (the resource or policy that prevents the organization from obtaining more of the goal)
2. Decide how to exploit the constraint (get the most capacity out of the constrained process)
3. Subordinate all other processes to above decision (align the whole system or organization to support the decision made above)
4. Elevate the constraint (make other major changes needed to break the constraint)
5. If, as a result of these steps, the constraint has moved, return to Step 1. Don't let inertia become the constraint.[5]

The five focusing steps aim to ensure ongoing improvement efforts are centered on the organization's constraints. In the TOC literature, this is referred to as the process of ongoing improvement (POOGI). These focusing steps are the key steps to developing the specific applications mentioned below.

#### **Understanding business environment**

It is possible to understand the business environment by conducting a Business Environment scanning and business constraint analysis. Business environment analysis is the answer to every business manager at any point of his tenure to verify, ascertain and corroborate his business practices for optimization.

Environmental scanning can be defined as 'the study and interpretation of the political, economic, social and technological events and trends which influence a business, an industry or even a total market'. The factors which need to be considered for environmental scanning are

events, trends, issues and expectations of the different interest groups.

Business environment analysis is a systematic process that starts from identification of environmental factors, assessing their nature and impact, auditing them to find their impact to the business, and making various profiles for positioning. A common process of environmental analysis or scanning is discussed in the following section.

### **Environmental Analysis Process**

Environmental analysis process is a dynamic process. Organizations need to build strength and repair their weakness available in the business environment. It may differ depending on the situation. However, a general process with few common steps can be identified as the process of environmental analysis these are:-

- a) Monitoring or identifying environmental factors,
- b) Scanning and selecting the relevant factors and grouping them,
- c) Defining variables for analysis,
- d) Using different methods, tools, and techniques for analysis,
- e) Analyzing environmental factors and forecasting,
- f) Designing profiles, and
- g) Strategic positioning and writing a report.

Over passage of a period of time a business manager should also conduct a business constraint analysis to sustain in business and market.

**Business Constraints Analysis** concentrates on finding the root constraints which limit revenue, growth, throughput and net income. Businesses can be modeled as a series of actions that build upon each other to create the final revenue generating output.

This is achieved by

- i. Analyzing the past activities which have produced the best revenue growth.

- ii. The overall business is then modeled to detect the barriers or constraints limiting future and larger successes.

These individual actions can be thought of as links in a chain. The strength of the chain is limited by the weakest link. This is defined as the constraint of the system. Strengthening any of the strong links has no effect on the weakest (the constraint) link. Improving capabilities in non-constrained areas does not improve the revenue of the organization. In contrast, strengthening the weakest link has immediate positive impact on the strength of the chain. The effect of this in a business is to increase capacity which can be applied to revenues, throughput and profits.

A business plan needs to be realistic, so it is important to set out in detail the constraints that are likely to act as limits on business activity.

Typical constraints facing the business include:

1. The size of the market.
2. The nature of demand in the market.
3. The availability of supply.
4. The nature of the competition.
5. The availability of finance.
6. The quality and skills of employees.
7. The quality of direction and management.

A constraint: is a factor that limits or holds back the possible success of a plan.

### **Methodology**

The survey was conducted at a firm level of a representative sample of an economy's private sector. Business owners and top managers have responded in this survey. Sometimes the survey was done calling the company accountants and human resource managers.

Four South Asian countries belonging to the low- income level - Nepal (Gross National Income \$1,005 or less) and Lower –middle income counties – India, Bangladesh, Bhutan and Pakistan (Gross National Income \$1,006–3,975) have been selected for the survey to understand

the variables they feel as constraints to their businesses.

200 respondents have been contacted for the survey.

### **Structure of the surveys:**

The Survey Used uses two instruments: the Manufacturing Questionnaire and the Services Questionnaire. Although many questions overlap, some are only applicable to one type of business. For example, retail firms are not asked about production and non production workers. Over 90% of the questions objectively ascertain characteristics of a country's business environment. The remaining questions assess the survey respondents' opinions on what are the obstacles to firm growth and performance. The mode of data collection is face-to-face and online interviews.

### **Sampling:**

The sampling methodology for Surveys is stratified random sampling with replacement. In a simple random sample, all members of the population have the same probability of being selected and no weighting of the observations is necessary.

In a stratified random sample, all population units are grouped within homogeneous groups and simple random samples are selected within each group. This method allows computing estimates for each of the strata with a specified level of precision while population estimates can also be estimated by properly weighting individual observations.

The strata for Surveys are firm size, business sector, and geographic region within a country. Firm size levels are 5-19 (small), 20-99 (medium), and 100+ employees (large-sized firms).

Sector breakdown is usually manufacturing, retail, and other services. Geographic regions within a country are selected based on which cities/regions collectively contain the majority of economic activity.

Ten constraints have been taken:-

1. electricity
2. tax rates
3. corruption
4. tax administration
5. access to finance
6. inadequately educated work force
7. labor regulations
8. access to land
9. transportation
10. customs and trade registrations

Five South Asian countries have been taken as a platform to understand the various business constraints in a firm. There are seven core countries.

1. Bangladesh
  2. Bhutan
  3. India
  4. Nepal
  5. Pakistan
- of these 4 countries – Bangladesh, Bhutan, Nepal and Pakistan have been taken and a comparative study has been undertaken with India as the benchmark.
- A. Regional average (South Asia) i.e., identifying the major constraints in the various countries against the average India in South Asia
  - B. World i.e., identifying the major constraints in the countries as against India in the world.

Data Analysis: - A. Regional average

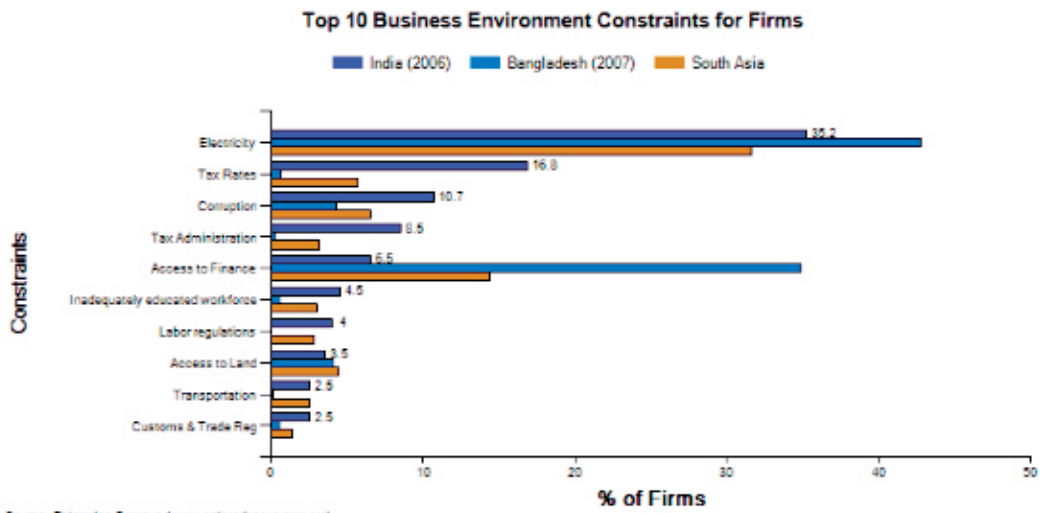
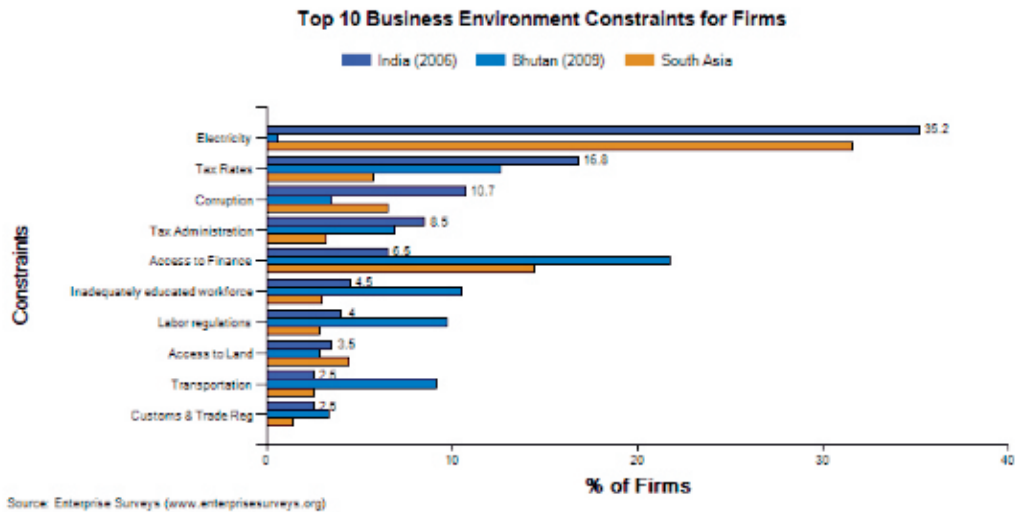
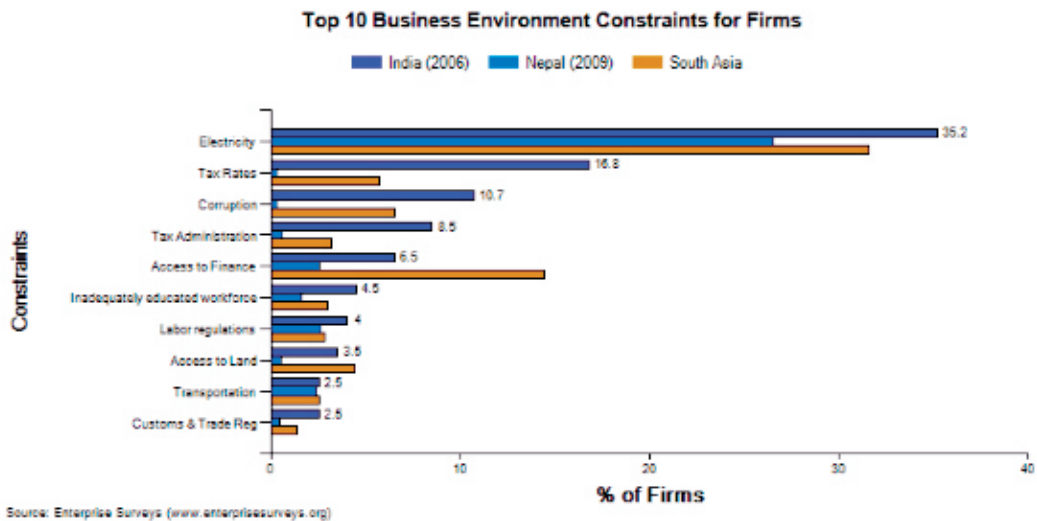


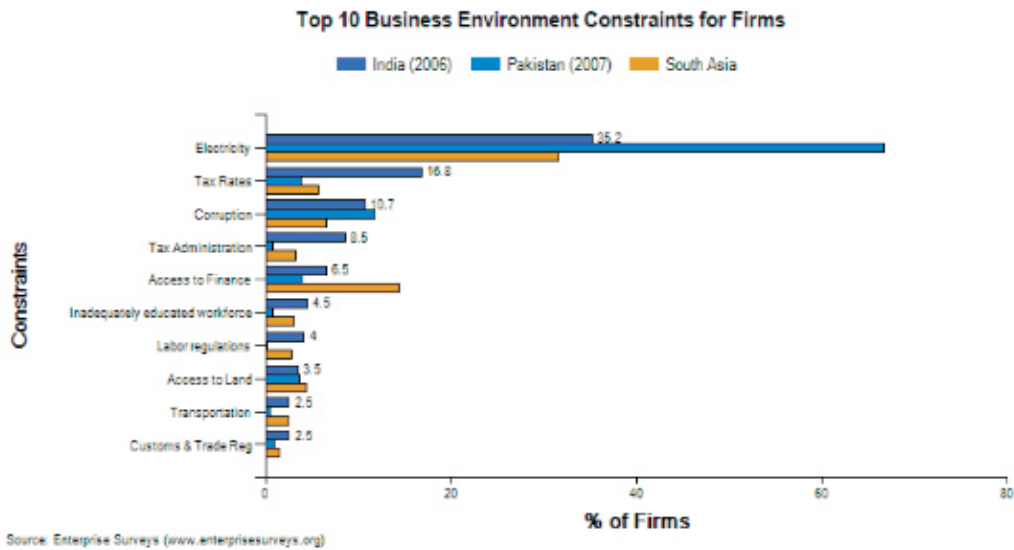
Figure 2  
South Asia and Bangladesh in comparison with India



**Figure 3 South Asia and Bhutan in comparison with India**



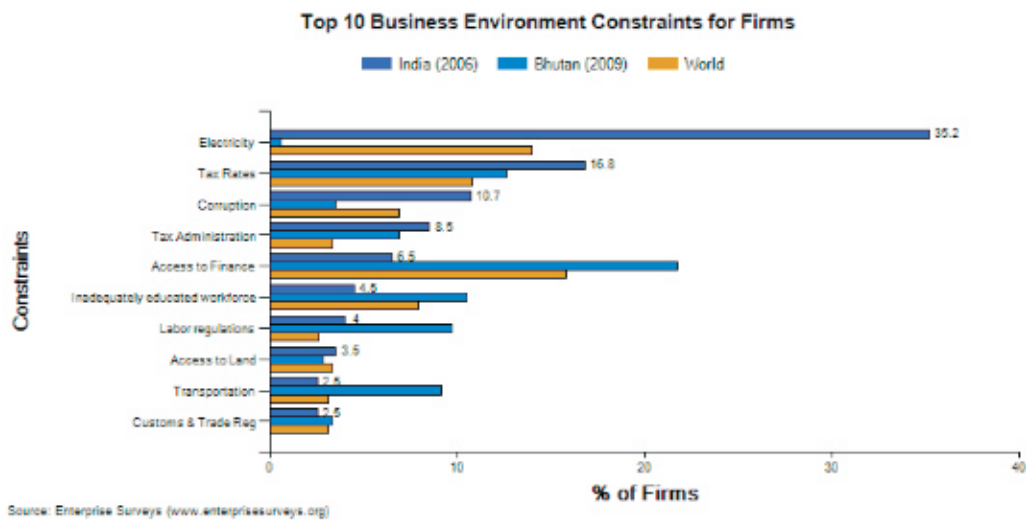
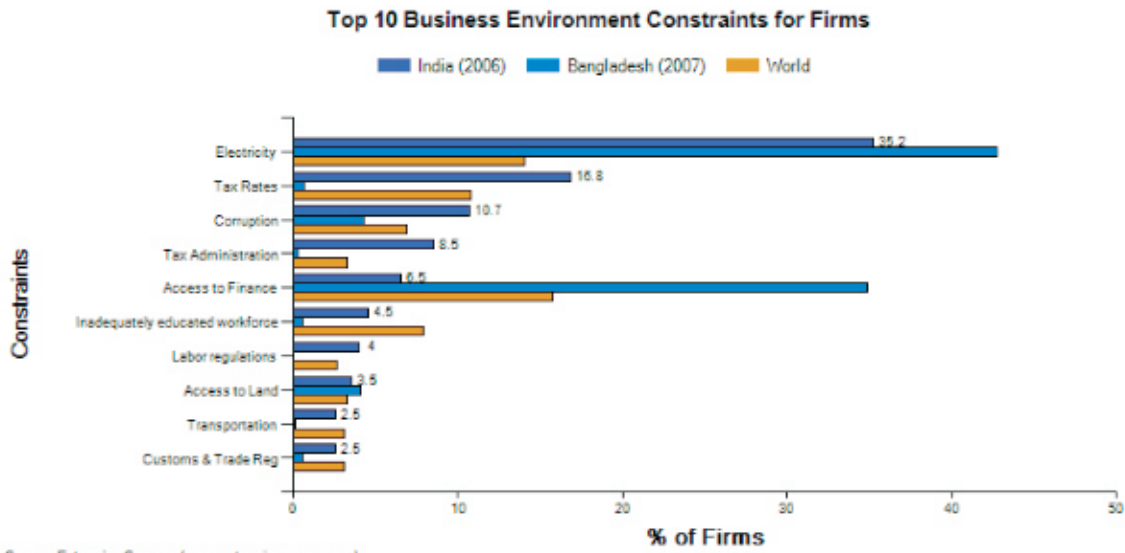
**Figure 4 South Asia and Nepal in comparison with India**



**Figure 5 South Asia and Pakistan in comparison with India****Interpretation of Constraints: - In the order of Major to Minor constraints**

Sl.no	India	Bangladesh	Bhutan	Nepal	Pakistan	South Asia
1.	Electricity	Electricity	Access to finance	Electricity	Electricity	Electricity
2.	Tax rates	Access to finance	Tax rates	Labor regulations	Corruption	Access to finance
3.	Corruption	Corruption	Inadequately educated workforce	Transport	Access to finance	Corruption
4.	Tax administration	Access to land	Labor regulations	Access to finance	Tax rates	Tax rates
5.	Access to finance	Customs and trade regulations	Transport	Inadequately Educated work force	Access to land	Access to land
6.	Inadequately Educated Workforce	Inadequately Educated Workforce	Tax administration	Access to land	Tax administration	Tax administration
7.	Labor regulations	Tax rates	Corruption	Tax administration	Inadequately Educated Workforce	Inadequately Educated Workforce
8.	Access to land	Tax administration	Customs and trade regulations	Corruption	Customs and trade regulations	Labor regulations
9.	Transportation	Transportation	Access to land	Tax rates	Transportation	Transportation
10.	Customs and trade regulations	Labor regulations	Electricity	Customs and Trade regulations	Labor regulations	Customs and Trade regulations

**Figure 6 Comparison - Bangladesh, India and World**



**Figure 7 Comparison - Bhutan, India and World**



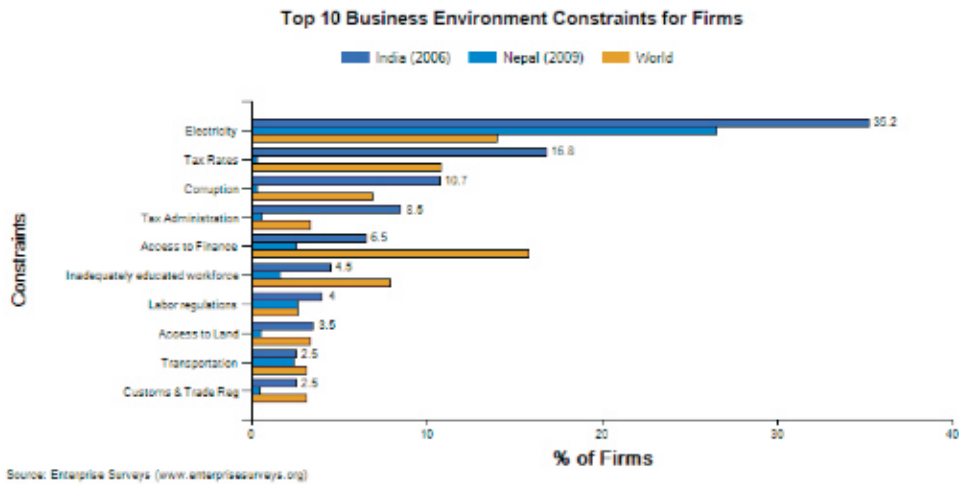


Figure 8 Comparison - Nepal, India and World

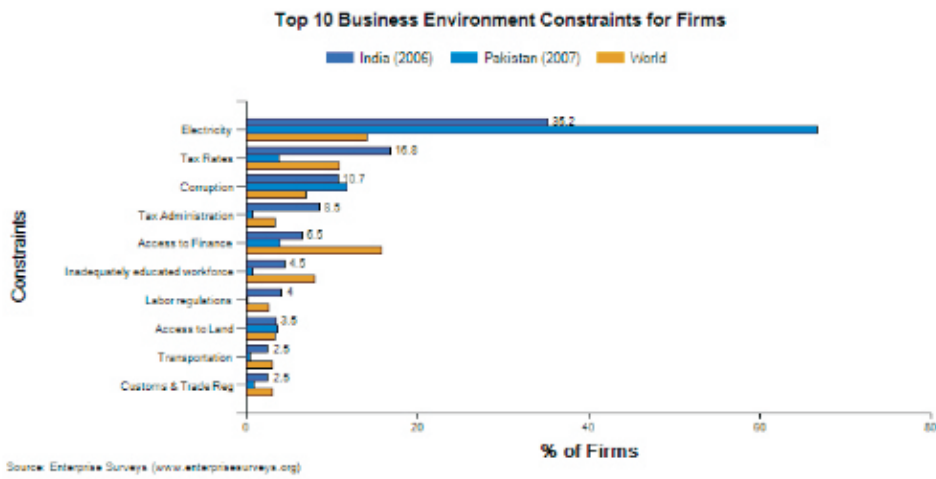


Figure 9 Comparison - Pakistan, India and World

Sl.no	India	Bangladesh	Bhutan	Nepal	Pakistan	World constraints
1.	Electricity	Electricity	Access to finance	Electricity	Electricity	Access to finance
2.	Tax rates	Access to finance	Tax rates	Labor regulations	Corruption	Electricity
3.	Corruption	Corruption	Inadequately educated workforce	Transport	Access to finance	Tax rates
4.	Tax administration	Access to land	Labor regulations	Access to finance	Tax rates	Inadequately Educated work force
5.	Access to finance	Tax rates	Transport	Inadequately Educated work force	Access to land	Corruption
6.	Inadequately Educated Workforce	Inadequately Educated Workforce	Tax administration	Access to land	Tax administration	Access to land
7.	Labor regulations	Customs and trade regulations	Corruption	Tax administration	Inadequately Educated Workforce	Transportation
8.	Access to land	Tax administration	Customs and trade regulations	Corruption	Customs and trade regulations	Labor regulations
9.	Transportation	Transportation	Access to land	Tax rates	Transportation	Tax administration
10.	Customs and trade regulations	Labor regulations	Electricity	Customs and Trade regulations	Labor regulations	Customs and Trade regulations

**Interpretation for table 1: major to minor**

1. Constraint 1: Apart from Bhutan which has a major constraint of access to finance the other countries suffer from lack of electricity. One can study how Bhutan has faced the electricity constraint.
2. Constraint 2: Tax rates are the second constraint for India and Bhutan, while for Bangladesh and South Asia Access to Finance and for Nepal, labor regulations and for Pakistan - Corruption.
3. Constraint 3: Corruption is the third constraint faced by India, Bangladesh and South Asia, while in the third place for Bhutan is inadequately educated Work force, Nepal is Transport and for Pakistan is Access to Finance.
4. Constraint 4: The fourth constraint for India is Tax Administration, Bangladesh is Access to land, Bhutan is Labor regulations, Nepal and Pakistan is tax rates.
5. Constraint 5: The fifth constraint for India is Access to finance (This means that India has sufficient funds for running of Industries), for Bangladesh Customs and Trade regulations, Bhutan is Transport, Nepal is Inadequately educated work force for Pakistan and the South Asia Access to Land.
6. Constraint 6: the sixth constraint for both India and Bangladesh is inadequately educated work force for Bhutan, Pakistan and South Asia it is Tax administration but for Nepal it is Access to land.
7. Constraint 7: India faces labor regulations constraint in the seventh place, while Bangladesh faces Tax Rates, Bhutan- Corruption, Nepal- Tax administration, then Pakistan and South Asia face inadequately educated work force.
8. Constraint 8: for India the 8th constraint is Access to land, for Bangladesh it is Tax administration for Bhutan and Pakistan it is Customs and trade regulations, while for

Nepal – Corruption and for South Asia it is Labor Regulations.

9. Constraint 9: in the ninth place 3 countries and the region of South Asian i.e, India, Bangladesh, Pakistan are suffering from Transport Problems.
10. Constraint 10: for India, Nepal and the region of South Asia Customs and Trade Regulation is the least regulation while for Bangladesh and Nepal it is Labor Regulations and for Bhutan Electricity.

From the observations we can understand that the top three constraints faced by India are Electricity, Tax Rates and Corruption, while the least are access to land, Transportation and Customs and Trade Regulations. India can study from its neighboring countries how they have sorted the major constraints and try to remove them for optimization.

From table 2 we can understand that the world is facing the same set of constraints in another order of importance. Access to finance. Electricity, Tax rates, Inadequately Educated work force, Corruption, Access to land, Transportation, Labor regulations, Tax administration, Customs and Trade regulations.

**CONCLUSION**

1. From the above given interpretations a business manager can understand that different countries have different constraints. Therefore, concentrating on the weaker links i.e., the constraint to make it a strong one can flourish business. Some of the techniques for correction are given below.
2. Corrective action and preventive action (CAPA, also called corrective action / preventive action) are improvements to an organization's processes taken to eliminate causes of non-conformities or other undesirable situations.
3. A Root Cause Analysis can also be done. Root Cause Analysis is any structured approach to identifying the factors that

resulted in the nature, the magnitude, the location, and the timing of the harmful outcomes (consequences) of one or more past events in order to identify what behaviors, actions, inactions, or conditions need to be changed to prevent recurrence of similar harmful outcomes and to identify the lessons to be learned to promote the achievement of better consequences.

4. A manager can also learn from other countries how they have tried to solve a problem they faced and mirror or make some changes to the solution adapted to suit his business and try it in his own business environment to overcome the constraint. This way not only clears the bottle necks but also helps the organization to sustain
5. A continuous improvement process can be undertaken .A continuous improvement process (CIP or CI) is an ongoing effort to improve products, services, or processes. These efforts can seek "incremental" improvement over time or "breakthrough" improvement all at once. . The elements above are the more tactical elements of CIP. The more strategic elements include deciding how to increase the value of the delivery process output to the customer (Effectiveness) and how much flexibility is valuable in the process to meet changing needs.
6. A holistic approach can also be adopted through Business process management (BPM)
7. BAM systems may be adopted for optimization. Business activity monitoring (BAM) is software that aids in monitoring of business activities, as those activities are implemented in computer systems. The term was originally coined by analysts at Gartner, Inc

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