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Business Environment analysis, Sri Lanka

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Introduction

This report explores internal and external factors in business environment in Sri Lanka. Its look in organisational and sectoral issues that could have a positive or negative impact on the company and how Sri Lanka, as a developing country, is suitable for the company business. Simple explanation of international business can be found in online Cambridge dictionary: “a large company that sells goods or services in different countries”. But behind that sentence are hidden wide scope of factors which impact the international business which are market size, legal environment, cultural differences, logistic, currency. By analysing strengths and weaknesses, this report shows application of the theories of business environment in Sri Lanka, specifically in a competitive environment. Report explores techniques which business may choose; some of these tools are SWOT analysis, Porter's five forces, Porter's diamond and, for selected country, PESTLE. The report has used sources of report of World bank, Sustainability and annual Orsted report, economic websites and economic literature and books.

Sri Lanka presenting

According to the latest research of World Bank (2022), Sri Lanka's real GDP is expected to fall by 9.2 percent in 2022 and a further 4.2 percent in 2023. The political climate is unpredictable, and there are growing imbalances in the fiscal, external, and financial sectors. As a result, Sri Lanka's economic outlook is quite uncertain. Inflation will probably continue to be high even with tighter monetary policy. In 2023 and beyond, additional resources will be required to fill the external finance deficit. It is expected that the poverty rate would stay above 25% in the future years. Nevertheless, according to World Bank (2022), Sri Lanka has positive aspects to do business in the country includes strategic geographical position which leads to big markets like China, India, Japan; doing efforts to make reforms in their economy, for example increasing Value Added Tax from 8% to 15% and suitable climate for producing renewable energy: wind and solar energy.

Company introduction

According to the Annual report (2022) of Orsted, the company is “a renewable energy company which develops, constructs, operates offshore and onshore wind farms, solar farms, energy storage facilities, renewable hydrogen and green fuels facilities, and bioenergy plants; the main company goal is to create world on green energy.” Orsted headquartered in Denmark, but the company operates in a few countries as USA, United Kingdom and Ireland, APAC (Australia, Vietnam, Japan) etc. (2021, Orsted annual report, p,11). Orsted employees are approximately 8,000 people.

Company shares are listed on Nasdaq Copenhagen (Orsted) and in 2022, the group's revenue was DKK 132.3 billion (EUR 17.8 billion) (2021, Orsted annual report, p,48).

Analyses and Business strategies

SWOT analysis

SWOT analysis is the most popular strategic analysis models. It entails analysing the company's capabilities' strengths and shortcomings as well as any possibilities and risks the company may face, (Whittington et al., 2020). Regarding the report of MarketLine (2023b), Orsted SWOT analysis is as follow:

“

Strength	Weakness
Balanced and integrated business model. Leadership position in offshore wind power. Growth in revenue provides financial stability.	Decline in liquidity position.
Opportunities	Threats
Strategic contracts and agreements. Global Renewable energy market. Global electricity retailing market.	Transmission and distribution network safety. Oil and gas price fluctuations. Energy and environmental policies.

”

By reason the high company standards and taking care for the environment, the new project could be realized in Sri Lanka. Green energy started developing in the area since 2015. According to Economynews (2022), “The grid integration, energy balance, and potential for interconnection with India to allow the sale of energy have been identified as key considerations for the growth of this sector.” World Bank prediction said, that according to early calculations, installed offshore Wind power capacity will likely reach 0.5–1 GW by 2030.

As reported by MarketLine (2023), in report “Renewable Energy in Asia-Pacific”, share of the renewable energy has arisen with 12 per cents for 2022; however, wind energy market in Asia-Pacific area has arisen to 18.1 per cents for the period 2017-2022 (MarketLine (2023), pp 13-15).

Porter's Five Forces

According to Scot (2022) and Whittington et al. (2020), this technique can help to highlight a sector's shortcomings and strengths by identifying and analysing five competitive forces that affect every industry. This research identifies the organisational structure of an industry and establishes corporate strategy, considering factors like rivalry, the possibility of new players entering the market, the influence of suppliers and customers, and the threat of replacement products.

1. Competition in the industry - The more similar products and services that are offered by competitors, the more powerless a company becomes.
2. Potential of new entrants into the industry – for the new entrants in the industry is important to invest enough money and time to be strong at the new market. An industry with strong entry barriers is good for existing companies. If new entrant jumps over this barrier and be allowed to in that industry, then the new entrant would be able to set higher prices or better terms.
3. Power of suppliers – unquietness inputs and limitless suppliers, possibilities to switch easily to another supplier, how much will be costs this moving, are questions we need to ask. If there were fewer vendors in the sector, a company would be more dependent on a supplier. The company can remain reduced input prices and increase profits, however, when there are several suppliers or low switching costs between vendors.
4. Power of customers – If the list of customers is small, it meant that every single customer can easily negotiate lower prices. A business will find it simpler to raise prices to boost profitability if it has many smaller, independent clients.
5. Threat of substitute products - Threats come from alternatives to a company's goods or services that can be used in their place. If there aren't other alternative goods/service, the price arising would be easy step. And vice versa, if there are available many substitutes' products, then company couldn't afford to increase the price.

In a summary, if a corporation can provide lower prices, customers will seek out their goods or services; yet, if there is little competition, a company may have better sales and profits. Suppliers are responsible for several crucial tasks in the supply chain. More businesses will rely on the limited number of providers of the input. Customer has a power to drive prices down and how company will find new customers and markets for its output or services. Porter's five forces are fundamental to building a business strategy.

Porter`s Diamond

According to the authors (Whittington et al., 2020), Porter`s Diamond is a strategy presented by Michael Porter and explains why specific industries are more developed and competitive in specific areas and countries then other industries. Porter study covered firm strategy, factor and demand conditions, supporting and related industries and chance. For example, fashion industry in Italy and France is determine by demand of the local customers. Factor conditions are local human resource, innovations, technology; supporting industries are suppliers and competitive industries in the area. As far as concerns to the chance, must be taken a few factors as possibilities of national disasters, or possibilities for terrorist attacks, or scientific inventions or breakthroughs. Importance of the firm strategy covers good management, structure of the organisation. For example, the application of

Porter's Diamond can be seen in the German automobile industry. The competitiveness of the business is aided by Germany's superior facilities, highly qualified labour force, and modern technology. Furthermore, German sophisticated customers asked for premium automobiles and it drove the expansion of contemporary manufacturing and innovations. The sector's growth has been supported by the presence of other businesses including those making steel and machine tools. Last but not least, the competition among German manufacturers has boosted efficiency and innovation within the sector, making it one of the most competitive in the world.

In addition, the research of 4C offshore (2023), there are three companies which are operated in Sri Lanka: Northwestern Coast, Mannar Basin and Arinma Holdings Project. This report briefly provides information about main competitors in the area.

Sri Lanka area is suitable for establishing offshore farms, because the area has constant wind flow. Moreover, weather research shows that in Sri Lanka zone wind conditions are suitable for establishing the offshore (and onshore as well) farms. (Map is available in the Appendix).

According to (Ritchie, Roser and Rosado, 2022) energy consumption in the area has arisen to 106 TWh. (Chart is available in the Appendix).

PESTEL

Another tool is PESTEL analysis which is a fundamental tool for business strategy and planning. It is a technique for evaluating the performance of your organisation and the effects of the business environment. PESTEL analysis is used to identify the external macro-environmental factors that may influence the operations and strategic decisions of a business. According to authors (Whittington et al., 2020; PESTEL Analysis, 2022) PESTEL analysis is specific political, economic, social, technological, ecological, and legal aspects of the environment. This list indicates that the environment involves both market and nonmarket elements. As reported by PESTEL Analysis (2022) details, mention below:

P – political environment

The politic takes a significant part of the business. During establishing the business in new country, must be taken into the account tax policies, regulations regarding trading and labour, social politic and, last but not least, stability of the government. Political factors might be combined with legislation (which is independent part of the analysis) and will be explored below.

E – economic environment

As a company owner, you must analyse different inflations levels, unemployment in the new country, trade, and economic growth etc. According to (PESTEL Analysis, 2022) Management depends on metrics like GDP, inflation, and currency rates, loan and bank interests as well. They are

able to determine when borrowing is reasonable. These variables aid in predicting how an economy would respond to certain developments.

According to Worthington and Britton (2006), there two main economic system; these are centrally planned and free-market economy.

S – social, cultural, demographic environment

This category focuses on consumer requirements and how they may influence the worth and need of a good / service. Social aspects evaluate people`s thinking in a market and preferences, lifestyle. Factors could be population, health caring, employment, education, lifestyle etc.

T – technological environment

Recognizing innovations and technologies in the area; not only digital technology, although the usage of apps, websites, and other similar items is increasing, is always evolving. Examples are innovations as automation, digitalization, and artificial intelligence implementation in the business.

E – ecological environment

In a view of ecological environment, must see whether companies are causing pollution or having a positive impact on it. Ecological factors refers to climate changes and sustainability of the business as well. The most common factors are legislations for waste disposal, energy usage, protecting nature laws, etc.

L – legislation

Legislation is closely related to the politic because usually government pass laws regarding business operating or well-being of society.

The company has an ambition to expand their offshore wind farms, moreover, to be a globally recognized sustainability leader. New markets are very welcome in the main strategic line (Orsted, 2022a, pp. 17-18).

Barriers for foreign business in Sri Lanka

According to Department for International Trade (2016), there are a range of barriers to step on Sri Lankas market. First is corruption and it could be a problem for establishing the company on this area. Using Corruption Perception Index shows that its level is high. Due to research for 180 countries in the world, Sri Lanka has been ranked 102 in 2021. Nevertheless, the country making steps to do efforts to decrease levels of corruption and bribery.

Second barrier is unsafe intellectual property. IP rights are territorial in meaning that they only provide security in the nations in which they are registered. The advice is to register company's intellectual property rights in export markets as the company thinking about expanding business.

Third barrier are terroristic attacks. It's possible that terrorists will attempt to carry out strikes in Sri Lanka. Attacks could occur randomly, including at hotels, tourist destinations, and offices that are frequented by foreign tourists.

In summary, Sri Lanka offers several opportunities for foreign businesses, however it presents challenges that need to be properly investigated and planned.

Recommendations to succeed in Sri Lanka

According to International Trade Administration U.S. Department of Commerce (2022) and The U.S. Department of State (2022), recommendations to succeed in Sri Lanka are followed:

To establish close relationships and partnerships, which will help the company to navigate in a complex business environment. The local partners can help with managing the cultural and legislation barriers and easier access to the local resources. Establishing relationships with local partners in technology companies – this can help for providing new services.

To tap on this market with caution with adjusting marketing strategies and different pricing (considering the poverty in the region).

To invest in education and trainings for local employees.

Conclusion

The study examines Sri Lanka's business environment, concentrating on internal and external factors that may have an impact on the company. Furthermore, explores the political economic outlook, and strengths and weaknesses. The conclusion is that Sri Lanka's economic future is uncertain, with a predicted decline in GDP and a high poverty rate. However, due to Sri Lanka's potential for connectivity with India, its high potential for wind generating capacity, and the expansion of the renewable energy industry in the Asia-Pacific region, it is appropriate for green energy businesses like Orsted.

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Appendix: PowerPoint Presentation



Business Environment analysis By Daniela Vasileva, student N 2235335
Renewable energy; offshore wind farm in Sri Lanka • LCBB4005
• The Global Business Environment
• Dr. Hossein Shokri

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 - *PESTEL Analysis*
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- * Recommendations
- * Conclusion
- * References





- International business – definition.
- Business environment and competition in Sri Lanka.
- Analysis - types for exploration of the business environment.
- Sources.

Company Introduction: Orsted

Renewable energy.

Situated in Denmark and international grid operating.

Orsted employees.

Company's shares on stock market and revenue.

Sri Lanka presenting

Expected GDP in 2023.

Sri Lanka's economic prognosis.

Inflation level.

In 2023 finance deficit.

High poverty.

Analyses and Business strategies



- SWOT analysis
- Porter's Five Forces
- Porter's Diamond
- PESTLE



SWOT

Definition: looking at the strengths and weaknesses of business capabilities, and any opportunities and threats to business.

(Whittington et al., 2019)

Strength	Weakness
Balanced and integrated business model	Decline in liquidity position
Leadership position in offshore wind power	
Growth in revenue provides financial stability	
Opportunities	Threats
Strategic contracts and agreements	Transmission and distribution network safety
Global Renewable energy market	Oil and gas price fluctuations
Global electricity retailing market	Energy and environmental policies

(MarketLine, 2023b)

According to the report of World Bank in 2030 installed offshore Wind power capacity will likely reach 0.5–1 GW by 2030

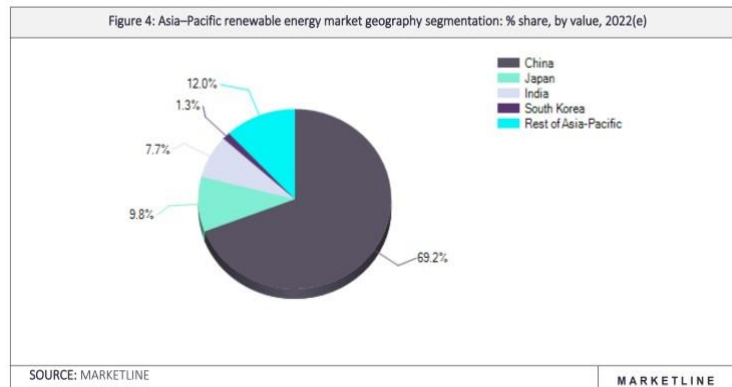
SWOT analysis

Category	2017	2018	2019	2020	2021	2022
Hydroelectricity	65.2%	61.4%	59.2%	56.9%	51.5%	48.6%
Wind	15.8%	17.3%	17.8%	18.6%	22.3%	22.9%
Solar Pv	9.0%	11.5%	13.5%	15.1%	16.5%	18.7%
Biopower	8.6%	8.5%	8.4%	8.3%	8.7%	8.8%
Geothermal	1.3%	1.3%	1.2%	1.2%	1.0%	0.9%
Total	99.9%	100%	100.1%	100.1%	100%	99.9%
SOURCE: MARKETLINE					MARKETLINE	

(MarketLine, 2023)

In addition, 22.9% of the market is accounted for by the Wind category.

SWOT analysis



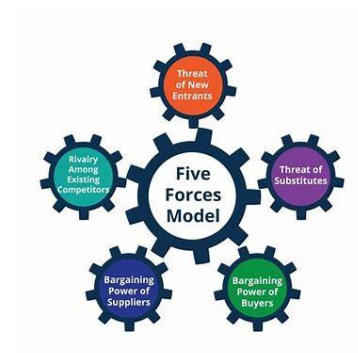
(MarketLine (2023), pp 13 -15)

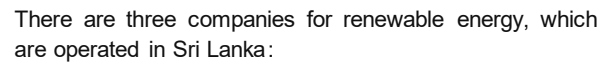
The share of the renewable energy has arisen with 12 per cents for 2022; however, wind energy market in Asia-Pacific area has arisen to 18.1 per cents for the period 2017-2022.

Porter's Five Forces analysis

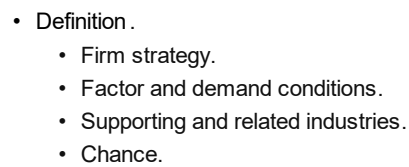
Definition .

- Competition in the industry
- Potential of new entrants
- Power of suppliers
- Power of customers
- Threat of substitute products





- (4C offshore, 2023)



(Whittington et al., 2019)

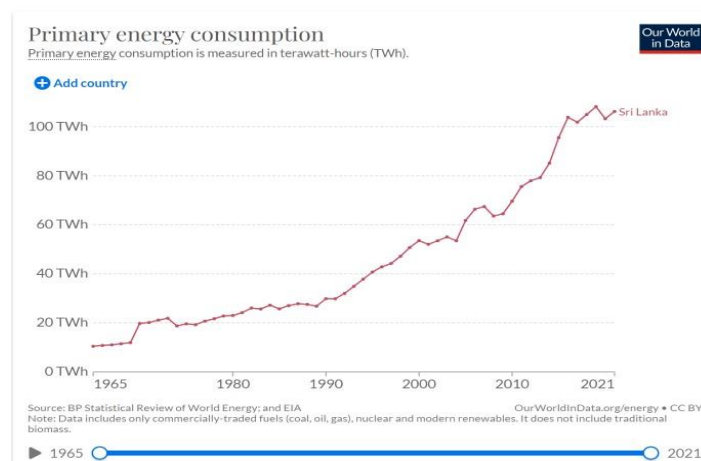
Porter`s Diamond analysis



(Nazka maps, 2021)

Good weather conditions for establishing offshore wind farms.

Porter`s Diamond analysis



(Ritchie, Roser and Rosado, 2022)

Increasing of energy consumption in Sri Lanka



PESTEL analysis

- Definition
 - P – political factors
 - E – economical factors
 - S – social factors
 - T – technological factors
 - E – ecological factors
 - L – legal factors

New markets in the main strategic line of Orsted company.

(Orsted, 2022a, pp. 17-18)

Barriers for foreign business in Sri Lanka

- Corruption
- Unsafe intellectual property
- Terroristic attacks



Recommendations



ESTABLISHING
RELATIONSHIPS



LOCAL PARTNERS



MARKETING
STRATEGIES AND
DIFFERENT PRICING



TRAININGS FOR LOCAL
EMPLOYEES

Summary

- Sri Lanka's business environment.
- Political economic outlook, and strengths and weaknesses.
- Expansion of the renewable energy industry in the Asia -Pacific region.



Questions?

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