

Unit-II -BUSINESS ENVIRONMENT

SESSION-1 Meaning of Business Environment

<i>Learning Objectives</i>	<i>Knowledge Evaluation</i>	<i>Performance Evaluation</i>	<i>Teaching method</i>
To understand the meaning, nature and characteristics of Business Environment.	<ul style="list-style-type: none"> • Meaning of Business Environment. • Definition of Business Environment. • Nature of Business Environment. • Features of Business Environment. 	<ul style="list-style-type: none"> • Explain the meaning of Business Environment. • List out the features of Business Environment. • Elucidate the nature of Business Environment. 	<ul style="list-style-type: none"> • Interactive lecture with examples.

Session 2 Elements of Business Environment

<i>Learning Objectives</i>	<i>Knowledge Evaluation</i>	<i>Performance Evaluation</i>	<i>Teaching method</i>
To Understand the various factors affecting Business Environment.	<ul style="list-style-type: none"> • Factors of Internal Environment. • Factors of External Environment. 	<ul style="list-style-type: none"> • Explain in detail various factors of Internal Environment. • Describe the factors of External Environment. • What is the difference between internal & external elements of Business environment? 	<ul style="list-style-type: none"> • Interactive lecture

Session 3 Environmental Analysis

<i>Learning Objectives</i>	<i>Knowledge Evaluation</i>	<i>Performance Evaluation</i>	<i>Teaching method</i>
To understand the basic concept of Environmental Analysis.	<ul style="list-style-type: none"> • Meaning of Environmental Analysis. • Meaning of SWOT Analysis. • Advantage & Disadvantage of SWOT Analysis. 	<ul style="list-style-type: none"> • Explain in detail the meaning & concept of SWOT Analysis. • Enumerate the advantages & disadvantages of SWOT Analysis. 	<ul style="list-style-type: none"> • Interactive Lecture • Activity – Prepare a SWOT analysis for any firm.

Case Study - BAN ON DIESEL CARS IN DELHI



India's Capital Delhi tried to get a handle on its growing pollution problem. Older diesel vehicles were banned from New Delhi in 2015, by Supreme Court. Vehicle registrations for diesel powered vehicles manufactured at least 10 years ago were cancelled or were not renewed. WHO (World Health Organization) ranked Delhi's air the 11th most polluted city in the world. The diesel cars primarily emit harmful gases, CO₂, unburned fuel, NO₂ etc. Diesel vehicles are the main contributors to smoke and the particulate matter. This causes cough, bronchitis, and pulmonary edema. The fine soot particles remain suspended in the air for long before getting settled, which are carcinogenic & lead to cancer.

The Indian Automakers were unhappy with this NGT's (National Green Tribunal) Ban on diesel vehicles in Delhi. The vehicles affected represent about 2% of company's total monthly sales. There were many external forces which affected the market like action taken by government, competitors etc. This lead to emphasize on the fact that environment provides both constraint & opportunities to grow, expand or run the business. To keep pace with changes in environment, every organization requires healthy interaction with external environment.



1.1 Meaning of Business Environment

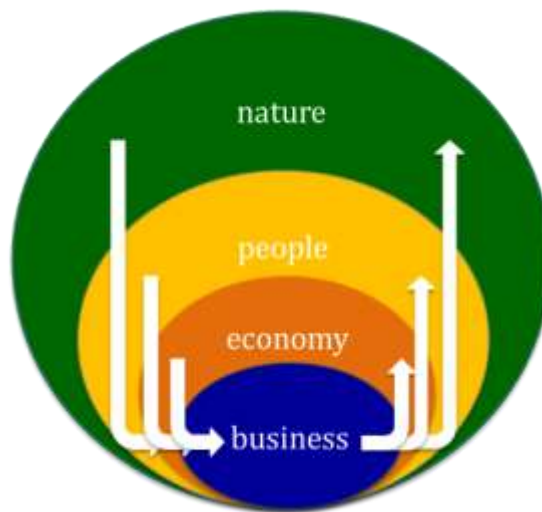
In the words of Keith Davis "Business Environment is the aggregate of all conditions, events and influences that surround and affect it."

According to Arthur Weimer "Business Environment encompasses the climate or set of conditions, economic, social, political or institutional in which Business operations are conducted."

The term Business Environment means the sum total of all individuals or organizations and other forces that are controllable or outside the control of business enterprise but may affect its performances. The economic, social, political technological and other forces which operate outside a business enterprise are part of its environment. Business Environment consists of both specific and general forces.

- Specific forces refer to those forces which are having direct effect on day to day working of the business i.e. customers, competitors, investors etc.

- General forces refer to social, political, legal and other forces which have indirect effect on business operations.



1.2 Nature of Business Environment

The nature of Business Environment can be explained by following approaches.

1. System Approach – Business is a system by which goods & services are produced for satisfaction of wants, by using raw material, capital, labour etc. from the environment.
2. Social responsibility Approach – Business should fulfill its social responsibility towards several categories of society like government, employees, consumers etc.
3. Creative Approach – Business brings about changes in the society by giving attention to the needs of people. It gives shape to the environment by facing the challenges & availing the opportunities in time.

1.3 *FEATURES OF BUSINESS ENVIRONMENT*

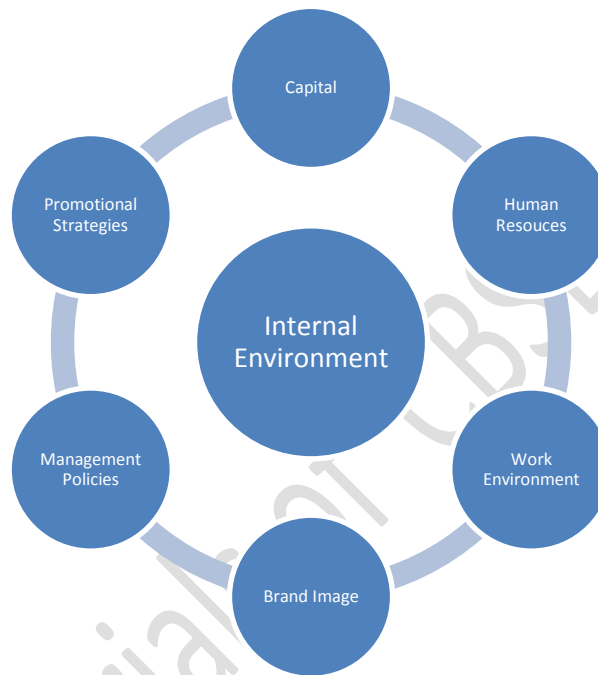
Business Environment is characterized by following features.

1. **Aggregative** - Business Environment is the totality of all the external forces which influence the working and decision making of an enterprise.
2. **Inter-related** - Different elements of business environment are closely interrelated and interdependent. A change in one element affects the other element for example : Social pressure against pollution (social environment), led to the enactment of anti-pollution laws (political environment).
3. **Relativity** - Business Environment is a relative concept. It differs from country to country and region to region for example : Countries like USA and UK have different kind of education system from India.
4. **Uncertainty** - Business Environment is legally uncertain because it is very difficult to forecast future uncertainties. Changes are taking place very frequently. For e.g. Advancement in mobile technology.
5. **Complex** - Business Environment is very complex. It's difficult to know the impact of social, economic, political and technological factors on change in demand of a product.

2.1 *ELEMENTS OF BUSINESS ENVIRONMENT*

Business Environment is a combination of both internal and external environment. Business is surrounded by an internal environment which is in control of the business and external environment which is not in control of business.

2.2 *Factors of Internal environment*



Internal environment includes components like:

1. *Capital*
2. *Human resources*
3. *Work environment*
4. *Brand image*
5. *Management policies*
6. *Promotional strategies*

a) ***Capital*** - Finance is the life blood of the business. The management has to skillfully utilize the financial resources for growth of the organization. Optimum utilization of financial resources is one of the controllable factors.

b) ***Human resources*** - Efficient human resource of the business takes the business to greater heights. The quality of goods and services provided by the business also depends upon the people employed in the business. Therefore, it is an internal factor which is in control of the business.

c) **Management Policies** - The board of directors should foresee the changes in external environment and form business strategies and policies accordingly. The business owner should also keep in mind business ethics and values so as to survive in the economy.

d) **Brand Image** - Promoting the brand of the business is completely in the control of the entrepreneur. If the business succeeds in providing quality goods and services to the customer's then business builds the best brand image.

e) **Promotional strategies** - It is in the control of the business to formulate the policies and strategies of promoting their business in this competitive world. They should work towards healthy competition and fulfill their business objectives.

f) **Internal work environment** - Business should promote healthier and happier environment inside the organization and provide good working conditions for the employees.

2.3 FACTORS OF EXTERNAL ENVIRONMENT



Contemporary Business Environment is made up of the following elements.

1. *Economic environment*
2. *Social environment*
3. *Political environment*
4. *Technological environment*
5. *Legal environment*

All these factors explain the general environment which mostly influences many enterprises at the same time. The business has to be aware of all the dimensions of business environment, so that they can identify threats and opportunities and cope up with all the rapid changes through proper planning and policy formulation.

1. *Economic environment* - The economic environment exercises most significant influence on business because business itself is an economic institution. Totality of Economic Factors, such as employment, income, inflation, value of rupee, interest rate, productivity, wealth, that influences the buying, behavior of the consumers and firms comprises Economic Environment. Since 1991 the government has announced several measures which are popularly known as economic reforms. It consists of **liberalization, privatization and globalization (LPG)**.

LIBERALISATION means removal of restriction on the entry and growth of private Sector firms.

PRIVATISATION means giving greater role to private sector and reducing role of public sector.

GLOBALISATION means integration of our economy with world economy to promote imports, exports and mobilizing exchange movement.

Examples of impact of economic environment on business are as follows :—

- a. A rise in income of people has created increasing demand for products.
- b. Globalization has resulted in entry of several multinationals into India.
- c. Rapid growth of Indian economy has been causing inflation.
- d. Stock markets in India have become more sensitive to change in international stock markets.

2. *Social Environment* - Social environment refers to characteristics of the society in which a business firms exists. It consists of social institutions and groups, educational system and literacy rates, custom beliefs, values and life styles, tastes and preferences of people. Demographic forces- size, population, occupational structure.

Examples of impact of social environment on business are as follows : —

- a. Changing attitude of Indians towards food and clothing have led to growth of fast food joints and ready-made clothing.
- b. Better education facilities for girls are creating greater demand for school dress, books and stationery.
- c. NGO's and courts are making business firms more responsible towards consumers and environment protection.

3. *Political environment* - Political environment comprises the elements relating to government affairs. It serves as regulatory framework of business.

The main constituents of political environment are as follows -

- Constitutional framework
- Political ideology
- Philosophy of political parties
- Political stability
- Image of country and it leaders
- Defense and military policy
- Nature and extent of beaurocracy

Examples of impact of political environment on business are as follow -

- a) Coalition government at centre has reduced political stability increasing risks for business.
- b) Reservation for ST, SC AND OBC's etc in educational institutions.
- c) Creation of new states of Chhattisgarh, Jharkhand, and Uttaranchal is affecting transport, tourism and mining industries.

4. *Legal environment* - Legal environment consist of laws, rules and regulation, framed by the parliament under which the business must operate. To exist and grow the business has to follow all the law that constitutes this environment. Non compliance of laws can pose threats for business enterprises.

The main constituents of legal environment are -

- 1. Laws governing business- economic, commercial and labour laws.
- 2. Flexibility and adaptability of laws.
- 3. Implementation and effectiveness of laws, court decisions for protection of consumers.
- 4. Decision rendered by various agencies at center, states or local level.

Examples of impact of legal environment on business

- a) Chambers of commerce and industry try to influence the policies and rules through lobbying and public opinion.
- b) Restriction on sale of arms ammunitions, Explosive, dangerous drugs.
- c) Protect employee against unfair dismissal.
- d) Legislature for health and safety and workers.

5. *Technological environment*- It includes new approaches, new products and new equipments to transform inputs into outputs. It also facilitates an organization efficiency and effectiveness so that it can try to remain at par with best in the world. Technology changes provide opportunities and become threat for others.

Example of impact of Technical Environment on business

- 1. Mobile phones have taken over from landline phone.
- 2. E- ticketing for railways and airways.
- 3. Information technology and telecommunication have given rise to a global market which requires better system of production and distribution (Internet marketing).

3.1 Environmental Analysis

No business can afford to ignore changes in environment. A business firm can set its future directions only when it has visualized the constraints & opportunities that lie ahead. So environment analysis helps management to predict future development & take corrective actions to implement their plans. The major technique for analyzing & diagnosing the environment is SWOT analysis.

SWOT Analysis

The organizations have to face challenges and adapt to changes that are taking place in the industry & market. For this good planning strategy is required by any business. Business operations have to be smooth for achieving its success.

In 1960's a team of researchers developed a new method to analyze corporate strategy. This method is known as SWOT Analysis.

- Human resource – staff, board members, target customers
- Physical resources – location, building, equipments
- Financial resources – Grants, funds, credits
- Activities & Processes – Programs the business run, systems they employ.
- Past experience – Reputation of the co. brand name, patents.

Opportunities & Threats

Opportunities are activities that the business does not currently have or do but that could positively impact the business if undertaken.

Threats are factors that negatively affect the business, if proper steps are not taken to mitigate them. The business has no control over the external factors which give rise to opportunity & threats. General areas to consider are –

- Future trends
- The economy – Local, national, international
- Funding sources – donors, legislature
- Demographics – change in age, race, gender, population shifts, culture of the society
- Economic Boom & Depression.

3.2 Advantages & Disadvantages of SWOT Analysis

Advantages

Using the SWOT Analysis gives various benefits to the organization in the following ways –

1. It understands the business & organization better.
2. It helps in addressing the weaknesses of the business.
3. It helps in capitalizing the opportunities in the economy.
4. It helps in taking advantage of strengths of the business.
5. SWOT Analysis prioritizes business goals & strategies.
6. SWOT analysis also lays down the path for achieving the goals of the organization.

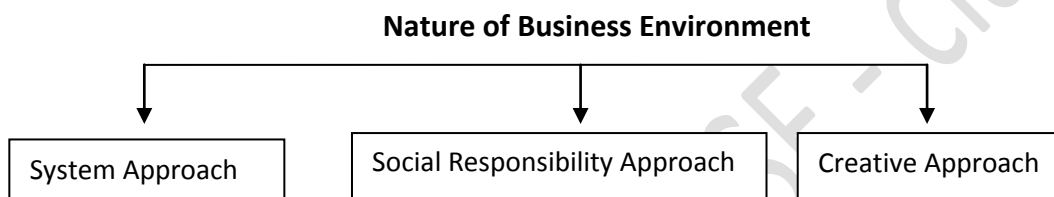
Disadvantages

SWOT Analysis is only one stage of the business planning process. For complex issues, more research & analysis is required. Various disadvantage of SWOT analysis are –

1. It does not prioritize issues & problems faced by the organization.
2. It does not provide solutions or offer alternative decisions.
3. It produces lot of information, but not all of it is useful.
4. It generates too many ideas but does not help to choose the best.

SUMMARY

- Business Environment: Business Environment encompasses the climate or set of conditions, economic, social, political or institutional in which Business operations are conducted.
- Nature of Business Environment



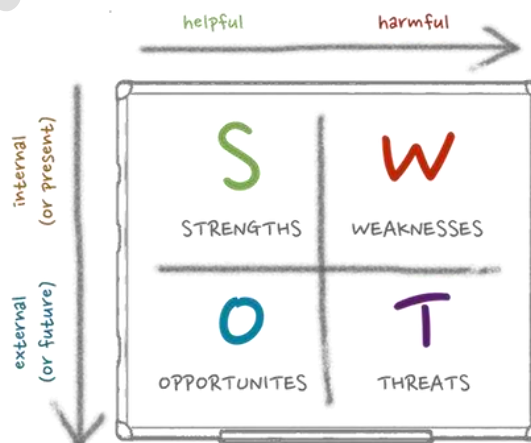
- **Features of Business Environment**

- ✓ *Aggregative*
- ✓ *Inter-related*
- ✓ *Relativity*
- ✓ *Uncertainty*
- ✓ *Complex*

- **Components of Internal Environment** : Capital, Human Resources, Work Environment, Brand Image, Management Policies and Promotional Strategies.

- **Components of External Environment** : Economic, Social, Political, Technological and Legal Environment.

- **SWOT Analysis**



Key Words

1. Business environment
2. Social responsibility

3. Human resources
4. Liberalization
5. Privatization
6. Globalization
7. SWOT Analysis
8. Strength
9. Weakness
10. Opportunity
11. Threat

Self Test Questions

I. Choose the correct answer:-

1. The positive factors of business are called as
a) Strength, b) Threat, c) Opportunity
2. are the factors that negatively affect the business
a) Weaknesses, b) Opportunities, c) Threats
3. 'Coalition government at centre has reduced political stability, increasing risks for business.' It's an example of
a) Technological environment, b) Legal environment, c) Social environment
4. refers to integration of our economy with the world economy.
a) Liberalization, b) Privatization, c) Globalization
5. is the life blood of any business
a) Capital/Finance, b) Brand image, c) Work environment

II. Fill in the blanks

1. Human resources are an factor which is in control of the business.
2. environment refers to the characteristics of the society in which a business firm exist.
3. environment comprises the elements relating to government.
4. environment includes new approaches, new products and new equipments to transform inputs into output.
5. is a business tool that deals with internal and external factors of the business.

III. Match the following

- | | |
|-------------------|--|
| 1. Strength | 1. These activities negatively impact the business and are in control of business. |
| 2. Opportunity | 2. Removal of restrictions on private sector firms. |
| 3. Weakness | 3. Describe the positive factors of business. |
| 4. Threat | 4. Giving greater role to private sector and reducing the role of public sector. |
| 5. Liberalization | 5. They negatively impact the business but are out of control of the business. |
| 6. Privatization | 6. If undertaken, they can have positive impact. |

IV. True or False

1. SWOT analysis provides readymade solutions for all the business problems.
2. Stability of Government plays a vital role in the growth and development of a business.
3. Specific focus does not affect the day to day functioning of the business.
4. Business environment is differs from country to country and region to region.
5. Satisfied employees bring good profits for the organization.

V. Answer the following briefly:-

1. What is included in legal environment of business? State
2. How does SWOT analysis prepare the business organization for the future?
3. Why business environment is considered to be complex in nature?
4. What is meant by business environment?
5. Which factors give rise to opportunities and threats?

VI. Answer in detail.

1. What role does economic environment play in the business?
2. How increasing competition & more demanding customers bring change in the economy?