



BUSINESS ENVIRONMENT

MODULE – II CHAPTER - I





Business

Environment

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- Definition :

Keith Davis

- *“Environment of the business means the aggregate of all conditions, events and influences that surround and affect it.”*

Arthur M. Weimer

- ***“Business environment encompasses the ‘climate’ or set of conditions, economic, social, political or institutional in which business operations are conducted.”***

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INTRODUCTION TO BUSINESS ENVIRONMENT

- **Business environment** consist of all those factors that have a bearing on the business. The term 'business environment implies those **external forces, factors and institutions** that are beyond the control of individual business organizations and their management and affect the business enterprise.



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- o **These forces are customer, creditors, competitors, government, socio-cultural organizations, political parties national and international organizations etc. some of those forces affect the business directly which some others have indirect effect on the business.**



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INTRODUCTION

- Business enterprises cannot function in isolation
- The combination of internal and external factors that influence a company's operating situation. The business environment can include factors such as: clients and suppliers; its competition and owners; improvements in technology; laws and government activities; and market, social and economic trends.

Society and business enterprises are mutually dependent

- Business enterprises satisfy societal needs

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- Understanding the environment within which the business has to operate is very important for running a business unit successfully at any place.
 - Because, the environmental factors influence almost every aspect of business, be it its nature, its location, the prices of products, the distribution system, or the personnel policies.
 - Hence it is important to learn about the various components of the business environment, which consists of the economic aspect, the socio-cultural aspects, the political framework, the legal aspects and the technological aspects etc

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- The success of every business depends on adapting itself to the environment within which it functions. For example, when there is a change in the government policies, the business has to make the necessary changes to adapt itself to the new policies.
- Similarly, a change in the technology may render the existing products obsolete, as we have seen that the introduction of computer has replaced the typewriters; the colour television has made the black and white television out of fashion.
- Again a change in the fashion or customers' taste may shift the demand in the market for a particular product, e.g., the demand for jeans reduced the sale of other traditional wear.

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FEATURES

1. Integral part of business : business cannot work in isolation
2. Dynamic nature. Business environment is dynamic in that it keeps on changing whether in terms of technological improvement, shifts in consumer preferences or entry of new competition in the market.
3. Complex : complicated and unpredictable
4. Multi-dimensional : changes can be perceived as an opportunity or threat.
5. Regulates scope of business : Environment provides framework within which the business has to operate. E.g Manufacturers of products like cigarettes and alcoholic drinks cannot advertise on television.

CONTD....

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6. Uncertainty: Business environment is largely uncertain as it is very difficult to predict future happenings, especially when environment changes are taking place too frequently as in the case of information technology or fashion industries.

7. Long lasting impact on business :

8. Relativity: Business environment is a relative concept since it differs from country to country and even region to region. Political conditions in the USA, for instance, differ from those in China or Pakistan.

9. Affects business planning : Planning has to keep pace with the changes in the environment so as to derive maximum benefits from the opportunities created by the environment.

External Environment



Climate



Economy



Technology



Political



Legal



Competition



Media



Fashion

Strategic Planning

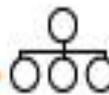
Internal Environment



Organisational Culture



Human Resource



Organisation Structure



Physical Assets



Profit and Cash Flow



Management

12 IMPORTANCE OF ANALYSING BUSINESS ENVIRONMENT

1. Identification of strength –

- a. employees are competent
- b. personnel policies are employee –organisation oriented
- c. working conditions generate job satisfaction

2. Identification of weaknesses–

identify its weaknesses and correct it as early as possible
e.g. Machines are outdated, employees lack competence,

3. Identification of opportunities –

government reduces excise duties – reduce prices so that sales
may go up.

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4. Identification of threats –

from competitors – innovative product

5. Effective planning –

after SWOT analysis list out specific objectives and accordingly frame plans to achieve them.

6. Facilitates organising of resources –

analysis enables the firm to know the demand potential of the market.

7. Optimum use of resources –

enable the firm to plan its activities and allocate the limited resources.

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8. Flexibility in operations –

enables a firm to adjust its activities depending upon the changing situation.

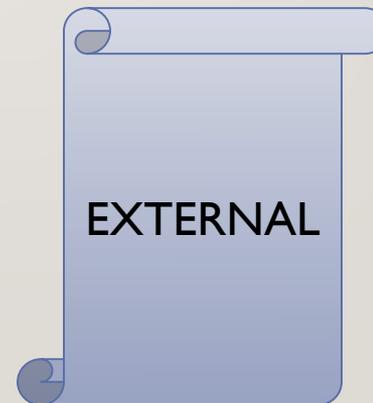
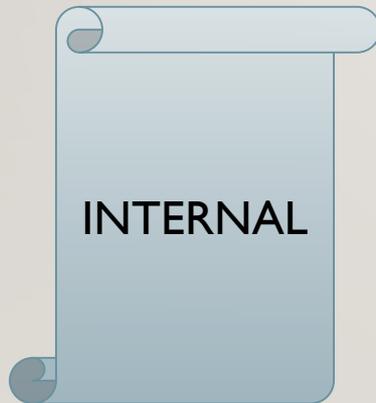
9. Survival & growth –

10. Corporate Image –

11. Innovation

12. Motivation to employees

15 Business Environment divided into two primary Categories



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- Every business enterprise consists of a set of internal factors and is confronted with a set of external factors.
- The internal factors are generally regarded as controllable, while the external factors are by and large beyond the control of the business.
- As environmental/external factors are beyond the control of a firm, its success depends to a large extent on the adaptability to the environment.(i.e its ability to design and adjust the internal controllable variables to take advantage of the opportunities and combat the threats in the environment.)

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- Thus the business environment comprises of both a micro and a macro environment. The former consists of actors in the immediate environment that affect the performance of the firm, such as suppliers, competitors, marketing intermediaries, customers etc.
 - The macro environment consists of larger societal forces that affect the actors in the company's micro environment, such as demographic, economic, natural, legal, technical, political and cultural forces.

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Internal Environment

- Internal environment includes all those factors which influence business and which are present within the business itself.
- These factors are usually under the control of business. The study of internal factors is really important for the study of internal environment.

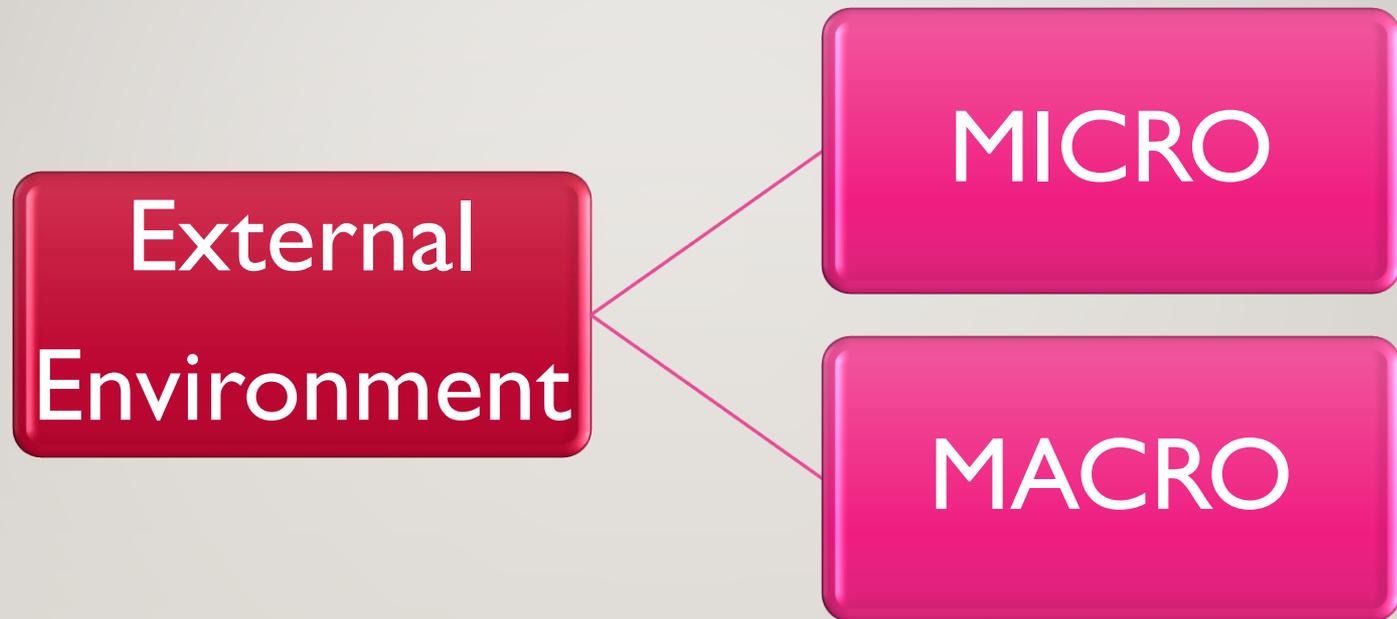
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- ❖ **Value system** – set of ethical values followed by an individual or an organisation
- ❖ **Management philosophy** – orthodox or professional
- ❖ **Vision, Mission and objectives** – provides direction in setting objectives and framing policies
- ❖ **Human Resource** – manpower most valuable asset

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- ❖ **Internal relationship** – management & workforce, team work proper communication between superior and subordinates
- ❖ **Corporate image** – perception about a company
- ❖ **Physical facilities** – land & building, furniture etc.
- ❖ **Financial resources** – factors like financial policies, financial positions and capital structure are also important internal environmental factors.
- ❖ **Research & Development facilities** – Adequate R&D facilities enable the company to introduce the company to introduce new products and services continuously and thereby remain ahead in competition.
- ❖ **Management structure** – includes levels of mgt, tall structure, the composition and all the qualifications of the board and the professionalism of the management etc.

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CONSUMERS



SUPPLIERS



MICRO



COMPETITORS



MARKETING
INTERMEDIARIES

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MICRO

1. **Suppliers**: those who supply inputs like raw materials and components to the organization.

ensure quality goods at the right time and at the right price.

2. **Customers**: major objective to create and retain customers.

type of customers - households, industries, government, individuals etc.

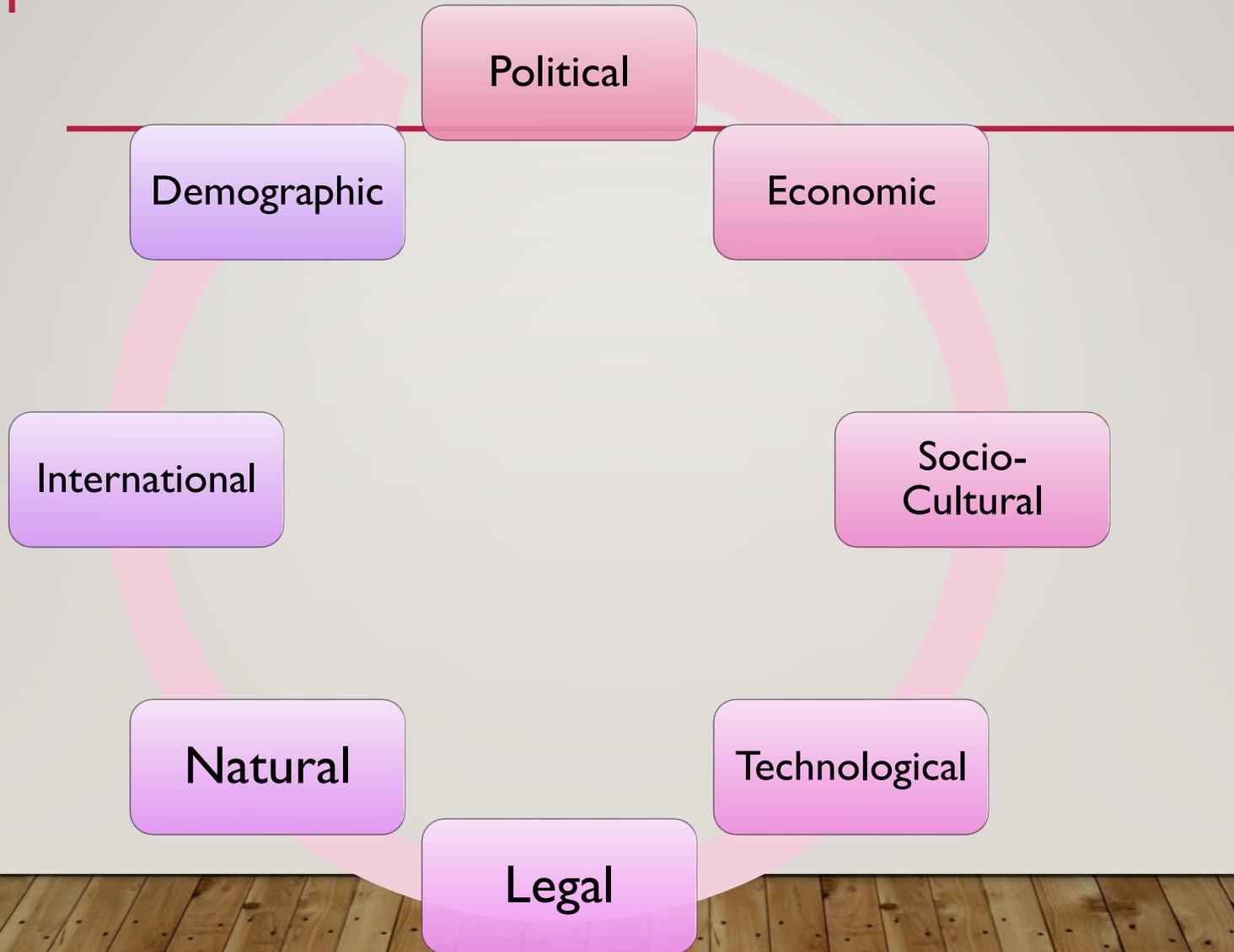
3. **Competitors**: In order to face competition it is necessary to monitor activities to assess their strength and weaknesses.

4. **Marketing Intermediaries**: those who facilitate distribution of goods from producer to consumer.

e.g. wholesalers, retailers, agents, distributors etc.

MACRO ENVIRONMENT

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25 I. POLITICAL ENVIRONMENT

- Made up of three major political institutions –
 - a. legislature - includes Parliament and legislative assemblies, which are the main decision and law making bodies of the country.
 - b. Executive – Government & bureaucracy
 - c. Judiciary – Supreme Court , High Court and other courts.
- Factors : political system, philosophy of political parties style of leadership, political scandals, personal interest of politicians

26 2. ECONOMIC ENVIRONMENT

- Economic conditions in the market
- Economic policies of the government
- Economic system of the country – Socialist , Capitalist, Mixed Economy
- Exporters should know the economic system of the foreign markets

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3. SOCIO – CULTURAL ENVIRONMENT

- Consists of culture, traditions, values, buying habits, consumption patterns and lifestyles of a society
- These elements influence the buying behaviour of the members of the society.
- Culture determines the types of goods and services a business should produce.
- It refers to people's attitude to work and wealth; role of family, marriage, religion and education; ethical issues and social responsiveness of business.



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4. TECHNOLOGICAL ENVIRONMENT

- What is technology?
 - knowledge, tools, techniques, and actions
 - used to transform material , information, and other inputs into finished goods and services
 - plays pivotal role in creating and changing an organization's task environment
- Today's technology is tomorrows junk
- The manufacturer has to incorporate new techniques in his production process in order to ensure quality and innovation
- New and better technology helps in minimizing costs, reducing wastages and upgradation as they spend crores of rupees on research and development and introduce new products.

29 5. NATURAL ENVIRONMENT

- It includes geographical and ecological factors that influence the business operations. These factors include the availability of natural resources, weather and climatic condition, location aspect, etc.
- Transportation and communication depends to a large extent on geographical factors.
- Darjeeling – fans, load shedding in certain areas- inverter

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6. LEGAL ENVIRONMENT

- It refers to set laws , regulations which influence the business organisations and their operations.
- This environment aims at :
 - ❖ Protecting consumer interest
 - ❖ Better utilisation of natural resources
 - ❖ Protection and preservation of the ecological balance
 - ❖ Control of environmental pollution
 - ❖ Prevention of unfair competition

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7. DEMOGRAPHIC ENVIRONMENT

- It relates to population such as size, density, distribution, growth rate, age, sex, family size, standard of living, educational level, language etc.
- The demand of the people of cities and towns are different than the people in rural areas.
- The high rise of population indicates the easy availability of labour.



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8. INTERNATIONAL ENVIRONMENT

- It is the result of international trade
- The components are :
 - EXIM policies of a country.
 - Foreign exchange regulations like tariffs, quotas
 - Trade cycles like boom, recession
- The modern communication system, technology , entry of multinational companies, good relations between countries etc has brought different countries closer.

OVERVIEW OF BUSINESS ENVIRONMENT

