BUSINESS ENVIRONMENT

WHAT IS BUSINESS ?

Business is an economic activity which is related with continuous production of good and services for satisfying human wants.

1. Exchange of goods/services

2. Deals in numerous transactions.

3. Profit is main objective.

4. Risk and uncertainties.

5. Buyer and seller.

6. Marketing and distribution of goods/services.

7. To satisfy human wants.

8. Social obligation

Business does not function in isolation or in vacuum. It is affected by internal and external factors. These internal and external factors collectively constitute business environment. Internal environmental factors are within the control of business, whereas external factors are beyond the control of business.

'Environment' refers to the system in which human beings live and they have to adjust themselves according to it. So it is surroundings, external agents, influences or circumstances under which something exists.

*Business Environment can be defined as the aggregate of all those forces, factors and institutions which directly affect the working of a business organization. Some of these constituents may be static, while others may be changing.

- "Business Environment is the aggregate of all conditions, events and influences that surround and affect the business." Keith Davis
- "Business Environment encompasses the climate or set of conditions-economic, social, political or institutional in which business operations are conducted." Prof. Weimer
- "The term Business Environment of a company is defined as the pattern of all external influences that affect its life and development." Andrews
- "The total of all things external to firms and industries that affect the function of the organisation is called business environment." Wheeler

<u>*CHARACTERISTICS/NATURE OF BUSINESS ENVIRONMENT</u>

Business Environment is very complicated, dynamic and multi-dimensional and affects different business institutions in different ways. It exhibits many characteristics like:

1. Complex

Environment comprises of many factors. All these factors are related to each other. Therefore, their individual effect on the business cannot be recognised. This is perhaps the reason which makes it difficult for the business to face them.

2. Dynamic

As is clear that environment is a mixture of many factors and changes in some or the other factors continue to take place. Therefore, it is said that business environment is dynamic.

3. Uncertain

Nothing can be said with any amount of certainty about the factors of the business environment because they continue to change quickly. The professional people who determine the business strategy take into consideration the likely changes beforehand.

4. *Multi-dimensional

Business environment is related to the local conditions and this is the reason as to why the business environment happens to be different in different countries and different even in the same country at different places.

6. Interdependent components

The different factors of business environment are co-related. For example, change in the import-export policy with the coming of a new government. In this case, the coming of new government to power and change in the import-export policy are political and economic changes respectively. Thus, a change in one factor affects the other factor.

<u>*IMPORTANCE/SIGNIFICANCE OF BUSINESS ENVIRONMENT:</u>

Business and its environment are closely inter-related and mutually interdependent. Environment has its bearing on business and business has its bearing on environment. The success of business lies in understanding the environmental changes and adapting its business policies accordingly.

The surroundings of business enterprise which are constantly changing carry with them both opportunities and risks or uncertainties which can make or mar the future of business. Significance of the study of environment in business sector may be explained as follows:

1. Early identification of opportunities helps a business organization to be the first to exploit them.

2. A business organization should make its policies keeping in view the demands of environment.

3. The study of business environment is important to ensure optimum utilization of resources like, financial resources, human resource and physical resource etc.

4. Environment analysis helps the business organizations to identify strengths and weaknesses.

5. Environment analysis helps the business organizations to identify threats and explore opportunities available to business.

6. Environment analysis helps in adapting latest technological development which results in improved efficiency.

7. Scanning the business environment helps to understand Political Situation and its effect on business.

8. Scanning the business environment helps to understand economic policies of Government and their impact on business.

9. Because of globalization, the impact of international events on business is increasing. To understand global events and their impact on business, study of international environment is must.

10. By environmental analysis, business organizations come to know about the strategies of competitors to formulate counter plans.

11. Environment analysis helps in understanding the market conditions i.e. change in demand/supply, change in fashion, taste, boom or depression etc.

SCANNING BUSINESS ENVIRONMENT

There is a close and continuous interaction between business and its environment. So it is essential to understand and scan the environment to ensure effective utilization of resources. SWOT analysis is an analysis undertaken by business firms to understand their external and internal environment. The term

SWOT consists of four words:

S = Strengths

W = Weaknesses

O = Opportunities

T = Threats

SWOT analysis is applied to formulate effective organizational strategies. Through SWOT analysis, the business firms can match Strengths and Weaknesses existing with an organization with the Opportunities and Threats existing in the external environment.

COMPONENTS/TYPES/CONSTITUENTS/FACTORS OF BUSINESS ENVIRONMENT

Every business faces two types of environments simultaneously i.e. Internal Environment and External Environment.

1. INTERNAL ENVIRONMENT

All those factors within an organization which impart strengths or cause weaknesses constitute the internal environment. These factors can be controlled by business but they are quite important in shaping the behaviour of people working in it. Hence, managers have to take internal factors into account while taking actions.

2. EXTERNAL ENVIRONMENT

All those factors outside the organization which provide opportunities or pose a threat to the organization make up the external environment. These factors are those over which the business organization has no control.

- According to William Glueck and Jauck,

"In environment there are external factors, which constantly bring opportunities and threats to the business firm. In includes Economic, Social, Technological and Political conditions."

Examples of situations that may cause change in the external environment include:

(i) Improvement in production techniques

(ii) Fluctuations in the levels of demand

(iii) Fluctuations in interest rates

(iv) Changes in laws and regulations

(v) Changes in taxation

(vi) New social trends, fashions or life styles

(vii) International influences

TYPES OF EXTERNAL ENVIRONMENT

1. MICRO ENVIRONMENT

Micro environment consists of factors in the company's immediate environment that affects the performance of the company. These include the suppliers, marketing intermediaries, competitors, customers and the public.

According to Philip Kotler

"The micro environment consists of factors in the company's immediate environment which affects the performance of the business unit. These include suppliers, marketing intermediaries, competitors, customers and the public."

According to Hill and Jones

"The micro environment of a company consists of elements that directly affect the company such as competitors, customers and suppliers."

MICRO ENVIRONMENT COMPONENTS

1. Suppliers

Suppliers are important for any business unit. Suppliers are those who supply the inputs like raw material and components to the company. Organizations should keep two things in mind regarding suppliers:

- Reliability
- Multiple suppliers

2. Customers or clients

A business exists only because of its customers. Hence, a major task of a business is to create and sustain customers. Monitoring the customer's sensitivity is a pre-requisite for business success.

A company may have different types of customers

(i) Individual and household customers

(ii) Government bodies

(iii) Foreign customers

(iv) Retail customers

(v) Wholesale customers

To succeed in capturing and sustaining customers, following points must be kept in mind:

(i) Buyer's behaviour data can be used in constructing a customer profile.

(ii) Geographical factors should also be analyzed to know the opportunities and threats.

(iii) In the era of free trade, foreign customers can be attracted by making such products which can compete with foreign products.

(iv) Single customer of a company is full of risks as it places the company in a poor bargaining position.

(v) The business firm should make separate products for separate segments. Following can be the basis

of segmentation:

(a) Income level of customers

(b) Age of customers

(c) Personality and life style of customers

(d) Tastes and preferences of customers

(e) Quantity to be purchased by customers

(f) Education level of customers

3. Competitors

Competitor means other business units which are making similar products or a very close substitute of our product. Competitors play a vital role in running the business enterprise. Business has to adjust its various activities according to the behaviour of the competitors.

4. Market Intermediaries

Every business enterprise may be assisted by market intermediaries which include agents, brokers who help the company find customers. It is a link between company and final consumer. Market intermediaries help the company to promote, sell and distribute its goods to final buyers.

Examples:

Wholesalers, retailers, advertising agencies, consultancy firms, banks, insurance companies, warehouse, transport agencies etc.

5. Public

Public is any group that has actual or potential interest in the business. To achieve this interest, it has its impact on the business. Public includes users and non-users of the product like Environmentalists, NGOs,

Local Community, Media.

2. EXTERNAL ENVIRONMENT

A company and the forces operate in a larger Macro environment that shape opportunities and pose threats to the company. These factors are generally more uncontrollable than the micro forces.

According to Philip Kotler

“Macro environment includes forces that create opportunities and pose threat to the business unit. It includes economic, demographic, natural, technological, political and cultural environments.”

According to Hill and Jones

“The macro environment consists of the broader economic, social, political, legal, demographic and technological setting within which the industry and the business units are placed.”

EXTERNAL ENVIRONMENT COMPONENTS

1. ECONOMIC ENVIRONMENT

Economic environment consists of economic factors that influence the business in a country. It is very complex and dynamic in nature that keeps on changing with the change in policies or political situations.

Key components of economic environment are:

(A)Economic Conditions of Public

(B) Economic Policies

(C) Economic System

2. POLITICAL-LEGAL ENVIRONMENT

Political environment affects different business units significantly. A stable and dynamic political environment is essential for business growth. Whenever there is a change in the Government in a democratic country, it is a sign of change in economic policies. The Political environment of business depends on:

1. Ideology of the Government

2. Political Establishment

3. Political Stability in the country

4. Relations with other countries

5. Defense and Military Policy

6. Centre State Relationship

7. Approach of Opposition parties towards business

LEGAL ENVIRONMENT

Legal environment constitutes the laws framed by the Government and various legislations passed in the parliament. The businessman cannot overlook the legislations because he has to perform his business transactions with in the framework of legal environment. Every aspect for business is regulated by law in India. Government has also framed legislations which regulate and control the business.

Some of the main legislations regulating the business are as follows:

1. Industrial Dispute Act, 1947

2. Factories Act, 1948

3. Consumer Protection Act, 1986

4. Companies Act, 1956

5. Foreign Exchange Management Act 1999

6. Securities and Exchange Board of India Guidelines, 2000

3. SOCIAL & CULTURAL ENVIRONMENT

Business is an integral part of society and both influence each other. Influence exercised by social and cultural factors is known as socio-cultural environment. These factors include: attitude of people, family system, caste system, religion, education, marriage, habits and preferences, languages, urbanization, customs and traditions, ethics etc.

4. TECHNOLOGICAL ENVIRONMENT

A systematic application of scientific knowledge is known as technology. Everyday there are vast changes in products, services, lifestyles and living conditions, these changes must be analyzed by every business unit and should adapt these changes.

5. DEMOGRAPHIC ENVIRONMENT

Demographic environment refers to the study of the features of population i.e. size of population, growth rate, gender ratio, age composition, income level, education level, family size, family structure etc. All these factors affect size of demand, tastes, fashion, liking, preferences of consumer etc.

6. NATURAL OR ECOLOGICAL ENVIRONMENT

It includes geographical and ecological factors such as natural resources, weather and climatic conditions, port facilities, topographical factors such as soil, rivers, rainfall, pollution etc. Every business unit must look for these factors before choosing the location for their business.

7. INTERNATIONAL/ GLOBAL ENVIRONMENT

International environment is important for industries directly depending on import and export. A recession in foreign market or protection policy by foreign nations may create difficulties for industries depending on exports. Liberalization of import may help some industries but may adversely affect other industries.

Following factors of International environment affect business:

1. Globalization

2. Liberalization

3. International agreements and declarations

4. International terrorism

5. Cultural exchange

SOCIAL RESPONSIBILITY OF BUSINESS

Social Responsibility of Business can be defined as the obligation an organization's management team has towards the interests and welfare of the society or community that provides it with resources and environment to not only survive but flourish.

In other words, Social Responsibility is the way your company gives back to and takes care of the community it is located in and the greater society we are all a part of.

"Conceptually social responsibility may be taken up to mean intelligent and objective concern for the welfare of the society." K.R. Andrews

"Social responsibility is the personal obligation of every one as he acts for his own interests to assure that the rights and legitimate interests of all other are not impinged." Koontz and O'Donnel

There are four dimensions of Corporate Responsibilities:

1. Economic: Responsibility to earn profit for owners

2. Legal: Responsibility to comply with laws

3. Ethical: Doing what is right, just and fair

4. Voluntary and Philanthropic: Promoting human welfare and goodwill. Being a good corporate citizen contributing to community and quality of life.

IMPORTANCE OF SOCIAL RESPONSIBILITY OF BUSINESS

Social Responsibility of Business is important for organization and its stakeholders due to following reasons:

1. Increased productivity and quality

2. Reducing operating cost

3. Increased sales and customer loyalty

4. Reduced in corruption

5. Improved financial performance

6. Improved transparency and reporting

7. Reduced regulatory oversight

- Responsibility towards Shareholders

1. Shareholders are source of funds for the company. They expect maximization of the value of their investment in the company.

2. It is the duty of management to see that the financial position of the company is sound and the company always looks for growth.

3. The management should keep the shareholders well informed about the progress and financial position of the company.

4. The assets of the company are purchased with the funds provided by the shareholders. The management is responsible to safeguard these assets.

- Responsibility towards Workers

1. Every business should pay reasonable wages and salaries to its employees so that they may satisfytheir needs and lead a good life.

2. Good working conditions are necessary to maintain the health of the workers. Since workers spend about 8 hours at work place, they must be provided with good working conditions.

3. Workers should be provided with adequate benefits such as housing and medical facilities, insurance cover and retirement benefits.

4. The management should recognize the workers' right to fair wages, to participate in decision affecting their working life, to form trade unions etc.

5. The workers should be helped by training and other means to improve their skills.

- Responsibility towards Customers

1. The management should produce goods which meet the needs of the consumers of different classes, tastes and with different purchasing power.

2. The management should make goods of right quality available to right people at the right time and place at reasonable price.

3. The management should provide a prompt, adequate and courteous service to customers and handle their grievances carefully.

4. The management should ensure that advertisement and statement issued by the business are true and fair.

5. The management should not indulge into unfair and unethical practice such as black marketing, hoarding, adulteration etc.

- Responsibility towards Suppliers

1. Giving regular orders for purchase of goods.

2. Dealing on fair terms and conditions.

3. Availing reasonable credit period.

4. Informing about the taste of consumers.

5. Timely payment of dues

6. Informing the suppliers for future development plans.

- Responsibility towards Creditors

1. Provide accurate information regarding financial health of the organization.

2. Fairness in transactions

3. Promote a healthy atmosphere where creditors, suppliers and other interest groups are treated as patterns in a co-operative endeavor.

- Responsibility towards Government

1. To abide by the laws of the nation

2. To pay government taxes honestly

3. To avoid corrupting government employees

4. To encourage fair trade practices.

- Responsibility towards Community

1. The management should not indulge in any practice which is not fair from social point of view. Society expects that the business uses the factors of production effectively and efficiently.

2. The management can develop the surrounding area for the well being of workers and general public. It should take preventive measures against water and air pollution and should contribute to community development activities.

3. It is the responsibility of management to help increase direct and indirect employment in the area where it is functioning.

4. The management should make best possible use of capital, raw material, machine, technical knowledge and other resources for the well-being of the society.