

## CHAPTER - 3

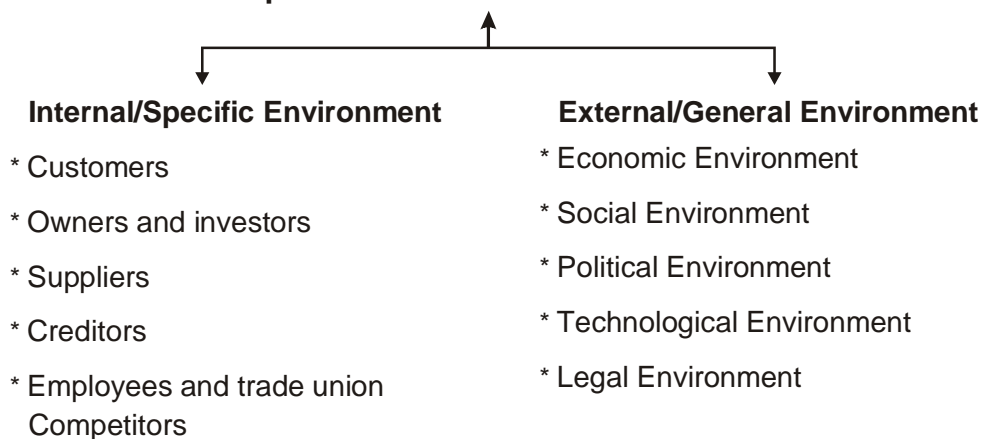
### BUSINESS ENVIRONMENT

Business environment means the sum total of the factors which influence the business and over which the business has no control. The study of business environment enables the managers to identify threats and opportunities.

#### Features of Business Environment

1. **Totality of external forces:** Business environment is the sum total of all the forces/factors external to a business firm.
2. **Specific and general forces:** Business environment includes both specific and general forces. Specific forces influence business firm directly while general forces affect a business firm indirectly.

#### Components of Business Environment



3. **Inter-relatedness:** All the forces/factors of a business environment are closely interrelated. For example, increased awareness of health care has raised the demand for organic food and roasted snacks.
4. **Dynamic:** Business environment is dynamic in nature which keeps on changing with the change in technology, consumer's fashion and tastes etc.
5. **Uncertainty:** Business environment is uncertain as it is difficult to predict the future environmental changes and their impact with full accuracy.

6. **Complexity:** Business environment is complex which is easy to understand in parts separately but it is difficult to understand in totality.
7. **Relativity:** Business environment is a relative concept whose impact differs from country to country, region to region and firm to firm. For example, a shift of preference from soft drinks to juices will be welcomed as an opportunity by juice making companies while a threat to soft drink manufacturers.

**Q.1** Business Environment includes both specific and general forces. List any two. (Specific- Investors and customers, general- social and political)

**Q.2** "Demand for sarees may be high in India but almost negligible in Europe". Which feature of business environment is highlighted here. (Relativity)

### **IMPORTANCE OF BUSINESS ENVIRONMENT**

1. **Identification of opportunities to get first mover advantage:** Understanding of business environment helps an organisation in identifying advantageous opportunities and getting their benefits prior to competitors, thus reaping the benefits of being a pioneer.
2. **Identification of threats:** Correct knowledge of business environment helps an organisation to identify those threats which may adversely affect its operations. For example, Bajaj Auto made considerable improvements in its two wheelers when Honda & other companies entered the auto industry.
3. **Tapping useful resources:** Business environment makes available various resources such as capital, labour, machines, raw material etc. to a business firm. In order to know the availability of resources and making them available on time at economical price, knowledge of business environment is necessary.
4. **Coping with Rapid changes:** Continuous study/scanning of business environment helps in knowing the changes which are taking place and thus they can be faced effectively.
5. **Assistance in planning and policy formulation:** Understanding and analysis of business environment helps an organisation in planning & policy formulation. For example, ITC Hotels planned new hotels in India after observing boom in tourism sector.

- 6. Helps in Improving performance:** Correct analysis and continuous monitoring of business environment helps an organisation in improving its performance.

## **Economic Environment in India**

As a part of economic reforms, the Government of India announced New Economic Policy in July 1991 for taking out the country out of economic difficulty and speeding up the development of the country.

The main objective of New Industrial Policy was to promote Liberalization, Privatization and Globalization.

- 1. Liberalisation:** It means freeing of Indian Industry from all unnecessary government controls and restrictions. Abolishing licensing requirements; Freedom in deciding the scale of business; removals of restriction on movements of goods and service; reduction in tax rates; freedom in fixing prices; simplifying procedures; making it easier to attract foreign investment.
  - 2. Privatization:** Giving greater role to private sector in the nation building process and reduced role of public sector; Disinvestment in many Public Sector undertaking etc., Setting up of BIFR to revive sick units in public sector enterprises suffering losses. It aimed at improving efficiency and performance of government undertakings, reducing budgetary deficit & better utilization of national resources.
  - 3. Globalization:** It means integration of various economies of the world leading to the emergence of cohesive global economy. The measures taken by the Government include trade liberalization which includes import liberalization; Export Promotion through rationalization of tariff structure; Foreign exchange liberalization; increased interaction among global economies under the aegis (protection/support) of World Trade Organization. It resulted in addition of Export duty, Reduction of import.
- Q.3** Give any one factor responsible for New Economic Policy of liberalization, privatization and globalization. (Economic development of the country)
- Q.4** Can the effect of various factors of business environment on business be recognised separately? (No, as the factors are related to each other)

## **DIMENSIONS/COMPONENTS OF BUSINESS ENVIRONMENT**

- 1. Economic Environment:** It has immediate and direct economic impact on a business. Rate of interest, inflation rate, change in the income of people, monetary policy, price level etc. are some economic factors which could affect business firms. Economic environment may offer opportunities to a firm or it may put constraints.
- 2. Social Environment:** It includes various social forces such as customs, beliefs, literacy rates, educational levels, lifestyle, values etc. Changes in social environment affect an organisation in the long run. Example: Now a days people are paying more attention towards their health, as a result of which demand for mineral water, Diet coke etc. has increased while demand of tobacco, fatty food products has decreased.
- 3. Technological Environment:** It implies using new and advanced ways/techniques of production. A businessman must closely monitor the technological changes taking place in the industry as it helps in facing competition and improving quality of the product. For Example, Digital watches in place of traditional watches, artificial fabrics in place of traditional cotton and silk fabrics, booking of railway tickets on internet etc.
- 4. Political Environment:** Changes in political situation also affect business organisations. Political stability builds confidence among business community while political instability and bad law & order situation may bring uncertainty in business activities. Ideology of the political party, attitude of government towards business, type of government-single party or coalition government affects the business. Example: Bangalore and Hyderabad have become the most popular locations for IT due to supportive political climate.
- 5. Legal Environment:** It constitutes the laws and legislations passed by the Government, administrative orders, court judgements, decisions of various commissions and agencies. Businessmen have to act according

to various legislations and their knowledge is very necessary. Example: Advertisement of Alcoholic products is prohibited and it is compulsory to give statutory warning on advertisement of cigarettes.

**Q.5** Identify the type of dimension of business environment related to the following:

- (i) Banks reducing interest rate on housing loans.
- (ii) An increasing number of working women.
- (iii) Booking of air tickets through internet.
- (iv) Alcohol beverages are prohibited to be advertised on Doordarshan.
- (v) A stable government has built up confidence among the firms to invest in big project.

[(i)economic, (ii)Social, (iii)Technological, (iv)Legal, (v) political]

## **IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY**

- 1. Increasing Competition:** Delicensing and entry of foreign firms in Indian market has increased the level of competition for Indian firms.
- 2. More Demanding Customers:** Now customers are more aware and they keep maximum information of the market as the result of which, now market is customer/buyer oriented. Now products are produced keeping in mind the demands of the customers.
- 3. Rapid Changing Technological Environment:** Rapid Technological advancement has changed/improved the production process as a result of which maximum production is possible at minimum cost but it leads to tough challenges in front of small firms.
- 4. Necessity for Change:** After New Industrial Policy, the market forces (demand & supply) are changing at a very fast rate. Change in the various

components of business environment has made it necessary for the business firms to modify their policies & operations from time to time.

- 5. Need for Developing Human Resources:** The changing market conditions require people with higher competence and greater commitment. Hence there is a need for developing human resources which could increase their effectiveness and efficiency.
- 6. Market Orientation:** Earlier selling concept was famous in the market now its place is taken by the marketing concept. Today firms produce those goods & services which are required by the customers. Marketing research, educational advertising, after sales services have become more significant.
- 7. Reduction in budgetary Support to Public Sector:** The budgetary support given by the government to the public sector is reducing thus the public sector has to survive and grow by utilising their own resources efficiently.

## QUESTIONS FOR PRACTICE

- Q.1** It is the process by which government control over the industry is being loosened. Give the term to which this statement is trying- to indicate. (Liberalisation)
- Q.2** “The understanding of business environment enables the firm to identify opportunities.” What is meant by ‘opportunities’ here?
- Q.3** “It may be difficult to know the extent of the relative impact of the social, economic, political, technological or legal factors on change in demand of a product in the market.” Which feature of business environment is highlighted by this point? (Complex)
- Q.4** ‘Understanding of environment by business managers enables them not only to identify and evaluate, but also to react to the forces external to their firms.’ In the light of this statement, explain by giving any five points why in the present day competitive market, it is essential for a business enterprise to remain alert and aware of its environment.
- Q.5** Just after declaration of Lok Sabha Elections 2014 results, the Bombay Stock Exchanges price index (Sensex) rose by 1000 points in a day. Identify the environmental factor which led to this rise giving reason. Also, explain any two other dimensions of business environment. (Political)
- Q.6** Lately many companies have planned for significant investment in organised retailing in India. Several factors have prompted their decisions in this regard- customer income is rising. People have developed a taste for better quality product even though they may have to pay more. The government permitted cent percent Foreign Direct Investment in some sectors of retailing.
- Identify the changes in business environment under different dimensions, quoting the lines from the above para.
- Q.7** The court passed an order to ban polythene bags as:
- I. These bags are creating many environmental problems which affect the life of people in general.

- II. Society in general is more concerned about quality of life.
- III. The government decided to give subsidy to jute industry to promote this business.
- IV. Innovative techniques are being developed to manufacture jute bags at low rates.
- V. Incomes are rising and people can afford to buy these bags.

Identify the different dimensions of Business Environment by quoting the lines from the above particulars.

- Q.8** The court issued the order that it is essential for the vehicles to be smokeless and that any one violating this order shall have to pay a heavy fine. Abiding by this order was necessary for the health of people. Making this strict order of the court as the base; 'Gyan Motors Limited' resolved to manufacture such vehicles by using modern technology as should not produce any smoke at all. The government should also announce to provide help in several ways to set up such industrial units.

Identify the three dimensions of Business Environment described in the paragraph above by quoting the relevant lines.

Write about any one of the values for society granted by the court.



## ANSWER AND HINTS

**A.6** Customer income is-----Economic environment.

People have-----Social environment.

The government permitted----Economic environment.

**A.7** (I) Quality of life- Social environment.

(II) Subsidy to jute- Economic environment.

(III) Innovative techniques- Technical environment.

(IV) Income are rising- Economic environment.

**A.8** (a) “The court issued the order----- - - smokeless” -----Legal.

(b) “Abiding by this order-----produce any smoke at all.”  
(Technical environment)

(c) “The Government also announced -----industrial units.”  
(Political environment)

# EVALUATION QUESTIONS

## UNIT-I

- Q1.** X Ltd. was manufacturing water heaters. In the first year of its operations, the revenue earned by the company is less. The Co. analysed the reasons of less revenue. After analysing the company decided: -
- (a) to reduce the labour cost by shifting the manufacturing unit to a backward area where labour was available at a very reasonable rate.
  - (b) to start manufacturing solar water heaters and reduce production of electric water heaters slowly.
- (i) Which functions of management are indicated here? [Hint: Planning & Controlling].
- (ii) Which dimension of business environment is applied here? [Social]
- (iii) State any two values which the company wanted to communicate to the society.
- Q2.** XYZ Ltd. Co., manufacturing cosmetics and enjoying a predominant position in the industry has grown in size. Its business was very good till 1991. But after that new liberalized environment has seen the entry of many MNCs in this sector with the result that market share of XYZ has declined. The company followed a very centralised business model with directors and divisional heads making even minor decisions.
- (a) Which function of management is being indicated here?
  - (b) What dimension of environment is implicit in this case? Indicate by quoting the lines from above para. [Hint: (a) Organising (b) Political]
- Q3.** Meera, Chairperson of Sunshine Ltd. feels that she is only responsible for the successful management of company because other persons are

working according to the plans and policies framed by top level management only.

- (a) Do you agree with her belief?
- (b) Which feature of management is lacking here?
- (c) Which principle of management is being ignored here? Explain briefly.

[Hint: (a) No. (b) Co-operation (c) Espirit De corps]

**Q4.** A.R. Rehman is the first Indian to win the oscar award for his composition “Jai Ho”. His composition of music is unique and different as he has used the singing notes in a manner that is entirely his own interpretation. Like A.R. Rehman, Nandan, a general manager in Expert Sales Ltd. uses his knowledge of management in a unique and different manner and all the employees working under his guidance are happy and satisfied. He rewards the employee who came to office in time.

- (a) Identify the nature of management highlighted above. Give reason.
- (b) Which Principle of Management is reflected by Nandan’s behaviour?
- (c) Which value does Nandan want to inculcate in his employees?

[Hint : (a) Management as an art

(b) Harmony, not Discord

(c) Discipline.

**Q5.** Mr. Singh owner of leather garments factory sends his marketing head to Europe every quarter to understand the changes in fashion. This helps to prepare his latest range in line with customers’ demands and expectations.

- (a) Identify the characteristic of management indicated here?
- (b) Which dimension of business environment is indicated here? Give any two impacts of it on business.

[Hint: (a) Dynamic (b) Social environment]

**Q6.** Mr. Bali, the Production manager of classic Ltd. is successfully running his department. He has created such an environment that no one becomes hurdle in anybody's work, but all of them are ready to help each other. Mr. Bali has been observing a change in market for last few days. In the past they used to produce goods according to their will and with a little bit of effort could sell them. But not they have to produce goods as desired by the people. When Mr. Bali investigated to know the reasons for this change, he came to know that on account of positive policies of the govt., running the business had become easy. Due to this, several new people had entered the business. Consequently, competition has increased and now the control of the market had slipped out of the hands of producers into the hands of customers.

- (a) Identify the concept of management described here? Give two points of its importance.
- (b) Identify the business environment dimension and the concept there of.

[Hint: (a) Co-ordination (b) Economic environment and Liberalisation].

**Q7.** The Govt. has been watching for some time that the performance of industry in the Public sector is not coming up to the level of standardisation. Several efforts have been put in, but because of no improvement in it, the Govt. decided to increase the role of Private sector in some areas of Public sector. This would bring about improvement in the level of performance. The reason for the Govt. to make this decision was that the different departments of an industrial unit in Public sector do not work with each other. The situation in private sector is entirely opposite to it.

- (a) Identify the concept of Management which shows the failure of Public sector. Give its importance also.
- (b) Which concept of business environment has been described in above case? Identify it and give its meaning.

[Hint: (a) Co-ordination (b) Privatisation]

**Q8.** Mr. Singh is working as the General Manager in a chain of hotels. Keeping a watch over the business environment is included in his routine. For the last few days Mr. Singh has been observing that the Govt. is taking special interest in Tourism Industry. The receipt of foreign exchange and employment promotion are its reasons. On the basis of this news he decided to set up hotels at several tourist places. They established several hotels before other companies considered this issue. Very soon, their hotels became well-known in the market. Behind the fame of this company another reason was that this company was giving its employees not only the responsibility but also the authority of completion of work. The environment being to their liking now they had started meeting their managers with the latest ideas, which are taken by the company.

- (a) Identify the importance of business environment described here by quoting the relevant lines.
- (b) Identify the principles of Management being used in the Company.
- (c) On which level is Mr. Singh working. Write any two more functions performed at that level.

[Hint: (a) (i) Assisting in planning & Policy formation –  
The Govt. Is taking. ....  
(ii) Dynamic - They establish several . .....

(b) (i) Principle of Authority & Responsibility  
(ii) Principle of Initiative

(c) Top level Management.]

**Q9.** In a reputed Co., for the last few days, differences have cropped up between management and workers. The workers were demanding more bonus. This matter has aggravated so much that the attention of both the parties has been diverted from production to division of profits. Consequently, the profits of the company began to fall down.

In order to assess the situation of Co.'s rapidly falling profits, a team of specialists was invited. After investigation, besides the differences, one more fact was revealed. That fact was the Purchase Manager of the company was purchasing raw material from the co. run by his own brother at a price more than market price. So, with the increase in cost, profit was reduced.

Due to poor performance, many customers also left the company.

- (a) Which technique of scientific management will be suitable for the company and why?
- (b) Which principle of management given by Henry Fayol is being ignored by the co.? Explain briefly.
- (c) Which factors of Business environment are affecting the Co? Identify the type and factors.

[Hint: (a) Mental revolution

(b) Principle of Subordination of Individual Interest to General interest.

(c) External Factors - Customers

Internal Factors - Employees].