# SYLLABUS

## Class – M.Com. I Sem.

## Subject – Business Environment

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UNIT-I
Business Environment

Introduction to Business Environment –
The formula for business success requires two elements – the individual and the environment. Remove either value and success becomes impossible. 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 enterprises. It implies all external forces within which a business enterprise operates. Business environment influence the functioning of the business system. Thus, business environment may be defined as all those conditions and forces which are external to the business and are beyond the individual business unit, but it operates within it. These force are customer, creditors, competitions, 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.

Meaning of Business environment –
Environment of a business means the external forces influencing the business decisions. They can be forces of economic, social, political and technological factors. These factors are outside the control of the business. The business can do little to change them.

Following features –
1) Totality of external forces: Business environment is the sum total of all things external to business firms and, as such, is aggregative in nature.
2) Specific and general forces: Business environment includes both specific and general forces
Specific forces (such as investors, customers, competitors and suppliers) affect individual enterprises directly and immediately in their day-to-day working. General forces (such as social, political, legal and technological conditions) have impact on all business enterprises and thus may affect an individual firm only indirectly.
3) 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.
4) 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 fashion industries.
5) 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. Similarly, demand for sarees may be firmly high in India whereas it may be almost non-existent in France.

Importance of Business Environment –
1) Firm to identify opportunities and getting the first mover advantage: Early identification of opportunities helps an enterprise to be the first to exploit them instead of losing them to competitors. For example, Maruti Udyog became the leader in the small car market because it was the first to recognize the need for small cars in India.
2) Firm to identify threats and early warning signals: If an Indian firm finds that a foreign multinational is entering the Indian market it should give a warning signal and Indian firms can meet the threat by adopting by improving the quality of the product, reducing cost of the production, engaging in aggressive advertising and so on. For this Indian firms should always be alert.
3) Coping with rapid changes: All sizes and all types of enterprises are facing increasingly dynamic environment. In order to effectively cope with these significant changes, managers
must understand and examine the environment and develop suitable courses of action. There are constant changes in technology; machinery fashion etc. managers should be on toes.

4) **Improving performance**: The enterprises that continuously monitor their environment and adopt suitable business practices are the ones which not only improve their present performance but also continue to succeed in the market for a longer period.

**Dimensions of Business Environment** –

*What constitutes the general environment of a business?*

The following are the key components to general environment of a business.

1) **Economic environment** – Economic environment consists of economic factors that influence the business in country. These factors include gross national product, corporate profits, inflation rate, employment balance of payments, interest rates consumer income etc.

2) **Social environment** – It describes the characteristics of the society in which the organization exists. Literacy rate, customs, values, beliefs, lifestyle, demographic features and mobility of population are part of the social environment. It is important for managers to notice the direction in which the society is moving and formulate progressive policies according to the changing social scenario.

3) **Political environment** – It comprises political stability and the policies of the government. Ideological inclination of political parties, personal interest on politicians, influence of party forums etc. create political environment. For example, Bangalore established itself as the most important IT centre of India mainly because of political support.

4) **Legal environment** – This consists of legislation that is passed by the parliament and state legislatures. Examples of legislation specifically aimed at business operations include the Trade mark Act 1969, Essential commodities Act 1955, Standards of Weights and Measures Act 1969 and Consumer Protection act 1969.

5) **Technology environment** – It includes the level of technology available in a country. It also indicates the pace of research and development and progress made in introducing modern technology in production. Technology provides capital intensive but cost effective alternative to traditional labor intensive methods. In a competitive business environment technology is the key to development.

**INTERNAL AND EXTERNAL BUSINESS ENVIRONMENT**

*Types of Environment* -

In the basis of extent of intimacy with the firm, the environment factors may classified into different types-internal and external.

**Internal Environment** –

The internal environment is the environment that has a direct impact on the business. Here there are some internal factors which are generally controllable because the company has control over these factors. It can alter or modify such factor as its personnel, physical facilities, and organization and functional means, like marketing, to suit the environment. The important internal factors which have a bearing on the strategy other decisions of internal organization are discussed below.

**Value system** –

Value system of the founders and those at the helm of affairs has important bearing on the choice of business, the mission and the objectives of the organization, business policies and practice. The extent to which the value system is shared by all in the organization is important in contributing to the success.

**Mission and vision and objectives** –

Vision means the ability to think about the future with imagination and wisdom. Vision is an important factor in achieving the objectives of the organization. The mission is the medium through which the
objectives are achieved. The business domains of the company, priorities, direction of development, business philosophy are guided by the company.

Management structure and nature –
Structure of the organization also influences the business decisions. The organizational structure like the composition of board of directors influences the decisions of business as they are internal factors. The structure and style of the organization may delay a decision making or some of the helps in making quick decisions. The quality of the board of directors is a critical factor for the development and performance of the company. The share holding pattern could also have important managerial implications.

Internal power relationships –
The relationship among the three levels of the organization also influences on the business. The mutual co-ordination among those three is an important need for a business. The relationship among the people working in the three levels of the organization should be cordial.

Human resources –
The human resources is the important factor for any organization as it contributes to the strength and weakness of any organization the human resource in any organization must have characteristics like skills, quality, high morale, commitment towards the work, attitude, etc. The involvement and initiative of the people in an organization at different levels may vary from organization to organization. The organizational culture and overall environment have bearing on them.

Company image and brand equity –
The image of the company in the outside market has the impact on the internal environment of the company. It helps in raising the finance, making joint ventures, other alliances, expansions and acquisitions, entering sale and purchase contracts, launching new products, etc. Brand equity also helps the company in same way.

Miscellaneous factors –
The other factors that contribute to the business success or failure are as follows –

Physical assets and facilities –
Facilities like production capacity, technology are among the factors which influences the competitiveness of the firm. The proper working of the assets is indeed for free flow or working of the company.

Research and development –
Though R&D department is basically done external environment but it has a direct impact on the organization. This aspect mainly determine the company's ability to innovate and compete.

Marketing resource – Resources like the organization for marketing, quality of the marketing men, brand equity and distribution network have direct bearing on marketing efficiency of the company.

Financial factors –
Factors like financial policies, financial positions and capital structure are also important internal environment affecting business performances, strategies and decisions.

EXTERNAL ENVIRONMENT –
It refers to the environment that has an indirect influence on the business. The factors are uncontrollable by the business. There are two types of external environment.
Micro Environment –
The micro environment is also known as the task environment and operating environment because the micro environment forces have a direct bearing on the operations of the firm. The micro environment consists of the actors in the company's immediate environment that affect the performance of the company. These include the suppliers, marketing intermediaries, competitors, customers and the public. The micro-environmental factors are more intimately linked with the company than the macro factors. The micro forces need not necessarily affect all the firms in a particular industry in the same way. Some of the micro factors may be particular to a firm. When the competing firms in an industry have the same micro elements, the relative success of the firms depends on their relative effectiveness in dealing with these elements.

Suppliers –
An important force in the micro environment of a company is the suppliers, i.e., those who supply the inputs like raw materials and components to the company. The importance of reliable sources of supply to the smooth functioning of the business is obvious. Uncertainty in supply often compels companies to maintain high inventories causing cost increase. Because of the sensitivity of the supply, many companies have high importance on vendor development. It is risky to depend on a single supplier, because a strike or lockout or any other production problem may affect that company.

Customer
The major task of a business is to create and sustain customers. A business exists only because of its customers. The choice of customer segments should be made by considering a number of factors including the relative profitability, dependability, and stability of demand, growth prospects and the extent of competition. Competition not only includes the other firms that produce the same product but also those firms which compete for the income of the consumes. Among these products, may be said as desire competition as the primary takes here is to fulfill the desires of the consumers. The competitors that satisfy a particular category desire then it is called generic competition. Depending on a single customer is risky because it may place the company in a poor bargaining position. The choice of the customer must be made considering a number of actors like profit, demand, growth prospects.

Marketing Intermediaries –
The marketing intermediaries include middlemen such as agents and merchants that help the company find customers or close sales with them. The marketing intermediaries are vital links between the company and the final consumers.

Financiers –
The financiers are also important factors of internal environment. Along with financing capabilities of the companies, their policies and strategies, attitudes towards risk, ability to provide non-financial assistance etc. are very important.

Public –
Public can be said as any group that has an actual or potential interest in or on an organization's ability to achieve its interest. Public include media and citizens. Growth of consumer public is an important development affecting business.

Macro Environment –
Macro environment is also known as general environment and remote environment. Macro factors are generally more uncontrollable than micro environment factors. When the macro factors become uncontrollable, the success of a company depends upon its adaptability to the environment. Some of the macro environment factors are discussed below:
Economic Environment –
Economic environment refers to the aggregate of the nature of economic system of the country, business cycles, the socio-economic infrastructure etc. The successful businessman visualizes the external factors affecting the business, anticipating prospective market situations and makes suitable to get the maximum with minimize cost.

Social Environment –
The social dimension or environment of a nation determines the values system of the society which, in turn affects the functioning of the business. Sociological factors such as costs structure, customs and conventions, mobility of labour etc. have far-reaching impact on the business. These factors the work culture and mobility of labour, work groups etc.

Political Environment –
The political environment of a county is influenced by the political organizations such as philosophy of political parties, ideology of government or party in power, nature and extent of bureaucracy influence of primary groups etc. The political environment of the country influences the business to a great extent.

Legal environment –
Legal environment includes flexibility and adaptability of law and other legal rule governing the business. It may include the exact ruling and decision of the courts. These affect the business and its managers to a great extent.

Technical Environment –
The business in a country is greatly influenced by the technological development. The technology adopted by the industries determines the type and quality of goods and technology adopted by the industries determines the type and quality of goods and services to be produced and the type and quality of plant and equipment to be used. Technological environment influences the business in terms of investment in technology, consistent application of technology and effects of technology on markets.

Liberalization:
- The economic reforms that were introduced were aimed at liberalizing the Indian business and industry from all unnecessary controls and restrictions.
- They indicate the end of the license-quota raj.
- Liberalization of the Indian industry has taken place with respect to:
  - Abolishing licensing requirement in most of the industries except a short list,
  - Freedom in deciding the scale of business activities i.e., no restrictions on expansion or contraction of business activities,
  - Removal of restrictions on the movement of goods and services,
  - Freedom in fixing the prices of goods services,
  - Reduction in tax rates and lifting of unnecessary controls over the economy.
  - Simplifying procedures for imports and experts, and
  - Making it easier to attract foreign capital and technology to India.

Privatization –
- The new set of economic reforms aimed at giving greater role to the private sector in the nation building process and a reduced role to the public sector.
- To achieve this, the government redefined the role of the public sector in the new industrial policy of 1991.
- The purpose of the sale according to the government, was mainly to improve financial discipline and facilitate modernization.
It was also observed that private capital and managerial capabilities could be effectively utilized to improve the performance of the PSUs. The government has also made attempts to improve the efficiency of PSUs by giving them autonomy in taking managerial decisions.

**Globalization**
- Globalization are the outcome of the policies of liberalization and privatization.
- Globalization is generally understood to mean integration of the economy of the country with the world economy. It is a complex phenomenon.
- It is an outcome of the set of various policies that are aimed at transforming the world towards greater interdependence and integration.
- It involves creation of networks and activities transcending economic, social and geographical boundaries.
- Globalization involves an increased level of interaction and interdependence among the various nations of the global economy.
- Physical geographical gap or political boundaries no longer remain barriers for a business enterprise to serve a customer in a distant geographical market.

**Impact of Government Policy Changes on Business and Industry**

1) **Increasing competition** – As a result of changes in the rules of industrial licensing and entry of foreign firms, competition for Indian firms has increased especially in service industries like telecommunication, airlines, banking, insurance, etc. which were earlier in the public sector.

2) **More demanding customers** – Customers today have become more demanding because they are well-informed. Increased competition in the market gives the customers wider choice in purchasing better quality of goods and services.

3) **Rapidly changing technological environment** – Increased competition forces the firms to develop new ways to survive and grow in the market. New technologies make it possible to improve machines, processes, products, and services. The rapidly changing technological environment creates tough challenges before smaller firms.

4) **Necessity for change** – In a regulated environment of pre-1991 era, the firms could have relatively stable policies and practices. After 1991, the market, forces have become turbulent as a result of which the enterprise have to continuously modify their operations.

5) **Threat from MNC** – Massive entry of multi nationals in Indian market constitutes new challenges. The Indian subsidiaries of multi-nationals gained strategic advantage. Many of these companies could get limited support in technology from their foreign partners due to restrictions in ownerships. Once these restrictions have been limited to reasonable levels, there is increased technology transfer from the foreign partners.