SYLLABUS

B.B.A. III SEM

Subject – Business Environment

UNIT – I	Meaning of Business Environment, Factors affecting environment to the business, Internal and external environment, micro environment, macro environment. Types of environment.
UNIT – II	Economic Environment: Nature of economy, structure of the economy, economic policies, economic conditions.
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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.

Definition: "The total of all things external to firms and industries that affect the function of the organisation is called business environment."—Wheeler

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 al 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 mangers 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 –**

Figure 1.2. *External 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 factors in the company's immediate environment that affects the performance of the company. These include the supplies, 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 firs I 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 source/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 to 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 include the other firms that produce same product but also those firms which compete for the income of the consumers the competition here among these products may be said as desire competition as the primary task here is to fulfill the desire of the customers. The competition that satisfies 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 organizations ability to achieve its interest. Public include media and citizens. Growth of consumer public is an important development affecting business.

- ✓ **Macro Environment –**

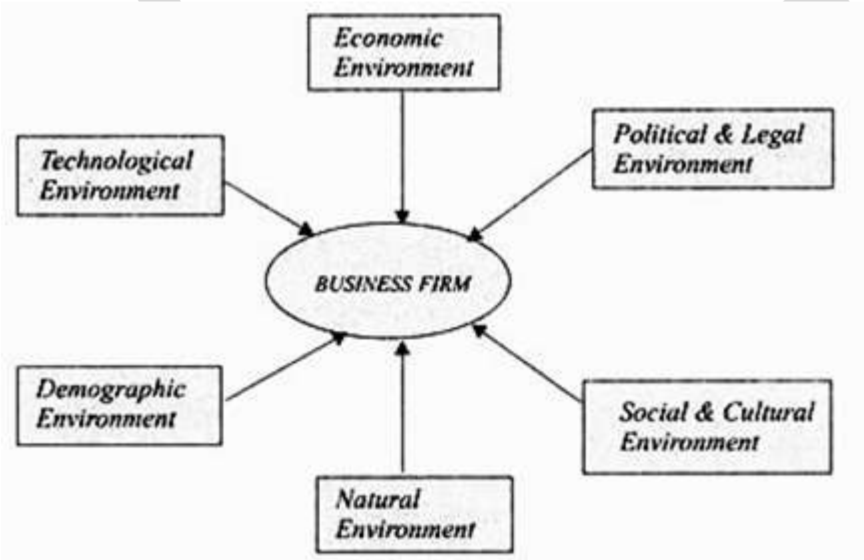

Fig. 1.3. External Macro Environment

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 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.

UNIT-II

ECONOMIC ENVIRONMENT

Introduction –

Various environmental factors such as economic environment, socio-cultural environment, political, technological demographic and international, affect the business and its working. Out of these factors economic environment is the most important factor.

Meaning of Economic Environment –

Those economic factors which have their affect on the working of the business is known as economic environment. It includes system, policies and nature of an economy, trade cycles, economic resources, level of income, distribution of income and wealth etc. Economic environment is very dynamic and complex in nature. It does not remain the same. It keeps on changing from time to time with the changes in an economy like changes in an economy like change in Govt. polices, political situations.

Elements of Economic Environment –

General economic conditions affect business. It has mainly five main components –

1) Economic conditions
2) Economic system
3) Economic policies
4) International economic environment
5) Economic legislations

Economic conditions –

General economic conditions affect business. Economic conditions pass through periods of boom and recession. A boom is characterized by high level of output, employment and rising demand and prices. If a region depends to a significant extent on any particular industry or sector, business in that region would be significantly affected by fortune of that industry. The economic and business prospects in major oil exporting countries depend to a very great extent on the crude oil prices. A particular economic condition may be widespread – international or national – or may be confined to a region. As the US economy is highly integrated globally the economic conditions in the US can have repercussions in other economies. Exports and imports of a country are generally affected by a number of domestic and international economic conditions. If economic policies of a business unit are largely affected by the economic conditions of an economy, any improvement in the economic conditions such as standard of living, purchasing power of public, demand and supply distribution of income etc. largely affects the size of the market.

The external factors are –

- The rate of growth of the economies of the importing countries
- The rate of growth of the world trade
- The rate of change in the price level I the importing country

Global/International Economic Environment –

The role of international economic environment is increasing day by day. If any business enterprise is involved in foreign trade, then it is influenced by not only its own country economic environment but also the economic environment of the country from/to which it is importing or exporting goods. There are various rules and guideless for these trades which are issued by many organizations like work bank, WTO, United Nations etc.

Economic Legislations- Besides the above policies, governments of different countries frame various legislations which regulates and control the business.

Nature of the economy – The general level of development of the economy has a lot of implications for business. It has a significant bearing on the nature and size demand, government policies affecting business etc.
A widely used method of classification of the economies is on the basis of the per capita income. Countries are broadly divided as low income, middle income middle and high income economies.
The term economic environment refers to all the external economic factors that influence buying habits of consumers and businesses and therefore affect the performance of a company. These factors are often beyond a company's control, and may be either large-scale (macro) or small-scale (micro).

Macro factors include:

- Employment/unemployment
- Income
- Inflation
- Interest rates
- Tax rates
- Currency exchange rate
- Saving rates
- Consumer confidence levels
- Recessions

Micro factors include:

- The size of the available market
- Demand for the company's products or services
- Competition
- Availability and quality of suppliers
- The reliability of the company's distribution chain (i.e., how it gets products to customers)

While companies often can't control their economic environment, they can evaluate economic conditions before choosing to enter a particular market or industry or pursue other strategies.

Economic Environment in India –

In order to solve economic problems of our country, the government took several steps including control by the state of certain industries, central planning and reduced importance of the private sector. The main objectives of India's development plans were:

1) Initiate rapid economic growth to raise the standard of living, reduce unemployment and poverty.
2) Become self-reliant and set up a strong industrial base with emphasis on heavy and basic industries.
3) Reduce inequalities of income and wealth.
4) Adopt a socialist pattern of development – based on equality and prevent exploitation of man by man.

As a part of economic reforms, the government of India announced a New Industrial Policy in July 1991.
The broad features of this policy were as follows –

1) The government reduced the number of industries under compulsory licensing to six.
2) Disinvestment was carried out in case of many public sector industrial enterprises
3) Policy towards foreign capital was liberalized. The share of foreign equity participation was increased and in many activities 100 per cent Foreign Direct Investment (FDI) was permitted.

4) Automatic permission was now granted for technology agreements with foreign companies.
5) Foreign Investment Promotion Board (FIPB) was set up to promote and channelize foreign investment in India.

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 observe 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 is 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 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, process, 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 marker 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.

Monetary Policy-

Definition: Monetary policy is the macroeconomic policy laid down by the central bank. It involves management of money supply and interest rate and is the demand side economic policy used by the government of a country to achieve macroeconomic objectives like inflation, consumption, growth and liquidity.

Description: In India, monetary policy of the Reserve Bank of India is aimed at managing the quantity of money in order to meet the requirements of different sectors of the economy and to increase the pace of economic growth.

The RBI implements the monetary policy through open market operations, bank rate policy, reserve system, credit control policy, and moral persuasion and through many other instruments. Using any of these instruments will lead to changes in the interest rate, or the money supply in the economy. Monetary policy can be expansionary and contractionary in nature. Increasing money supply and reducing interest rates indicate an expansionary policy. The reverse of this is a contractionary monetary policy.

For instance, liquidity is important for an economy to spur growth. To maintain liquidity, the RBI is dependent on the monetary policy. By purchasing bonds through open market operations, the RBI introduces money in the system and reduces the interest rate.

Fiscal Policy- Fiscal policy means the use of taxation and public expenditure by the government for stabilization or growth of the economy. According to Culbarston, "By fiscal policy we refer to government actions affecting its receipts and expenditures which ordinarily as measured by the government's receipts, its surplus or deficit." The government may change undesirable variations in private consumption and investment by compensatory variations of public expenditures and taxes.

General objectives of Fiscal Policy are given below:

1. To maintain and achieve full employment.
2. To stabilize the price level.
3. To stabilize the growth rate of the economy.
4. To maintain equilibrium in the Balance of Payment
5. To promote the economic development of underdeveloped countries.

World Bank:

Purpose and Function:

The World Bank provides low-interest loans, interest-free credit, and grants. It focuses on improving education, health, and infrastructure. It also uses funds to modernize a country's financial sector, agriculture, and natural resources management.

The Bank's stated purpose is to "bridge the economic divide between poor and rich countries." It does this by turning "rich country resources into poor country growth." It has a long-term vision to "achieve sustainable poverty reduction."

To achieve this goal, the Bank focuses on six areas:

1. Overcome poverty by spurring growth, especially in Africa.
2. Help reconstruct countries emerging from war, the biggest cause of extreme poverty.
3. Provide a customized solution to help middle-income countries remain out of poverty.
4. Spur governments to prevent climate change. It helps them control communicable diseases, especially HIV/AIDS, and malaria. It also manages international financial crises and promotes free trades.
5. Work with the Arab League on three goals. They are to improve education, build infrastructure, and provide micro-loans to small businesses.
6. Share its expertise with developing countries. Publicize its knowledge via reports and its interactive online database.