**UNIT-1**

**BUSINESS ENVIRONMENT**

**Meaning of Business Environment**

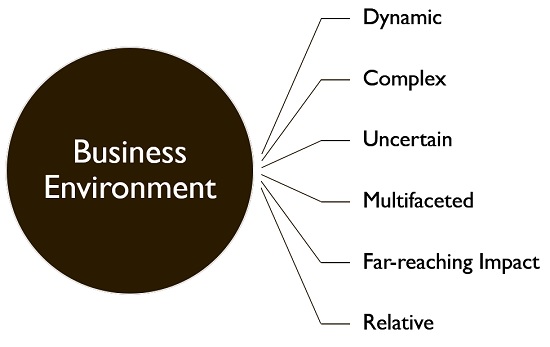
The definition of Business Environment, **“The sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but the business still depends upon them as they affect the overall performance and sustainability of the business.”**

The forces which constitute the business environment are its suppliers, competitors, consumer groups, media, government, customers, economic conditions, market conditions, investors, technologies, trends, and multiple other institutions working externally of a business constitute its business environment. These forces influence the business even though they are outside the business boundaries.

For example, changes in taxes by the government can make the customers buy less. Here the business would have to re-establish its prices to survive the change. Even though the business had no involvement in initiating the change it still had to adapt to it in order to survive or use the opportunity to make profits.

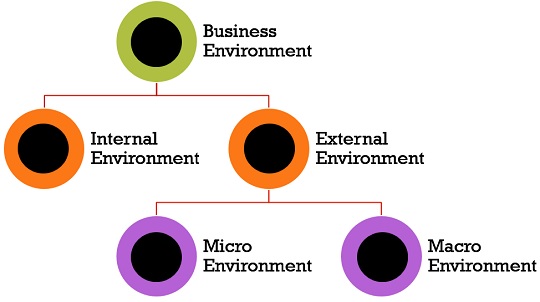
**Definition**: Business Environment means a collection of all individuals, entities and other factors, which may or may not be under the control of the organisation, but can affect its performance, profitability, growth and even survival.

### Salient Features of Business Environment

The salient features of the business environment are given hereunder:[](https://businessjargons.com/wp-content/uploads/2016/09/characteristics-of-business-environment.jpg)

1. **Dynamic**: The environment in which the business operates changes continuously because there is a wide variety of factors that exist in the environment, causing it to change its shape and character.
2. **Complex**: There are many forces, events and conditions that constitute business environment, arising from various sources. So, it is a bit difficult to understand the relative influence of a particular factor, on the operation of the organisation.
3. **Uncertain**: Uncertainty is an inherent characteristic of the business environment because no one can predict what is going to happen in future.
4. **Multi-faceted**: A single change in the business environment, can be viewed differently by different observers because their perceptions vary.
5. **Far-reaching Impact**: The survival, growth and profitability, of a business enterprise, depends largely on the environment in which it exists. A small change in the environment has a far-reaching impact on the organisation in different ways.
6. **Relative**: The notion of a business environment is relative since it varies from one location to another.

## Components of Business Environment

The Business Environment is broadly classified, into two categories:[](https://businessjargons.com/wp-content/uploads/2016/09/types-of-business-environment.jpg)

1. [**Internal Environment**](https://businessjargons.com/internal-environment.html): The factors which exist within the organisation, imparting strength or causing weakness to the organisation, comes under internal environment. It includes:
   * Value System
   * Vision and Mission
   * Objectives
   * Corporate Culture
   * Human Resources
   * Labor Union
2. **External Environment**: External Environment consists of those factors which provide an opportunity or pose threats to the business. It is further classified as:
   * [**Micro Environment**](https://businessjargons.com/micro-environment.html): The immediate periphery of the business that has a continuous and direct impact on it is called Micro Environment. It includes suppliers, customers, competitors, market, intermediaries, etc. which are specific to the business.
   * [**Macro Environment**](https://businessjargons.com/macro-environment.html): Macro Environment, is one such environment that influences the functioning and performance of every business organisation, in general. It comprises of the demographic, socio-cultural, legal, political, technological, and global environment.

All business enterprises, functions within an environment, called as the business environment. An individual business firm survives and grows within the periphery of its environment.

A firm is only a part of a big environment, and so there are only a few factors which are under the control of the firm.

So, the firm has no other option, but to respond and adapt accordingly. If business persons possess a good understanding of the business environment, they can easily recognise, analyse and react to the forces that affect the firm.

#### Significance of Business Environment:

**(i) Help to understand internal Environment:**

It is very much important for business enterprise to understand its internal environment, such as business policy, organisation structure etc. In such case an effective management information system will help to predict the business environmental changes.

**(ii) Help to Understand Economic System:**

The different kinds of economic systems influence the business in different ways. It is essential for a businessman and business firm to know about the role of capitalists, socialist and mixed economy.

**(iii) Help to Understand Economic Policy:**

Economic policy has its own importance in business environment and it has an important place in business. The business environment helps to understand government policies such as, export-import policy, price policy; monetary policy, foreign exchange policy, industrial policy etc. have much effect on business.

**(iv) Help to Understand Market Conditions:**

It is necessary for an enterprise to have the knowledge of market structure and changes taking place in it. The knowledge about increase and decrease in demand, supply, monopolistic practices, government participation in business etc., is necessary for an enterprise.

**6 important factors that influence business environment in brief.**

1. Geographical and Ecological or Natural Factors.
2. Demographic Factors.
3. Economic Factors.
4. Political and Legal Factors.
5. Social and Cultural Factors.
6. Physical and Technological Factors.

### 1. Geographical and Ecological or Natural Factors

Geographical conditions exert influence on the decisions as to the type of industries and business to be carried on in a region. This is because the people of a particular geographical region will have similar tastes, preferences and requirements.

Generally, goods, which are largely preferred by people in one region, may not be liked in another region. For instance, tastes, likes etc. as to [consumption of goods](https://accountlearning.com/sub-cultural-division-and-consumption-pattern-of-consumers-in-india/) in the people of South India may not be similar to that of in North India. Even in South India, people in different states may not have similar tastes, likes etc.

The geographical situation, the physical feature, the climate, rainfall, humidity, the vegetation etc. decide the type of living in a particular region. Hence those industries, which could cater to the needs of the people, could develop.

In India, cotton textile industries are located in Mumbai and Coimbatore regions due to favorable climate. Jute industry is located at Kolkatta due to the favorable geographical and climatic conditions to grow the raw material. The particular type of industry develops, only where its raw materials are available.

Ecological factors consist of natural resources like farmland, fisheries, forests, minerals like coal, metals, oils etc., energy, air and water. The supply of the resources is very much limited. A decade ago, we were all under an impression that natural resources like air and water are not exhaustible and their supply is unlimited. But now the situation is changed and we came to know that such resources are also very much limited in supply.

Various legislative measures are also being taken to protect the ecological environment. All these factors directly limit the scope of performance of the business firms. They should look for the Government’s sanction at each stage.

### 2. Demographic Environment

Demographic environment includes a number of sub-factors viz., size, growth, age and sex compositions of the population, educational levels, languages, caste, religion etc. The impact of this demographic factor is more vital in India than any other country in the rest of the world. Indian population is highly heterogeneous with varied religions, languages, castes and creeds. Naturally their tastes, preferences, beliefs, temperaments are bound to differ. This fundamental difference gives rise to different demand patterns and calls for [different marketing strategies](https://accountlearning.com/how-to-determine-standard-marketing-strategy-in-global-market/).

Only because of the influence of this factor, most of the industrialists in India have limited their area of operations. Even big business houses have to remain confined within a limited area or region. This heterogeneous population not only poses a challenge to the marketing task of an enterprise But its impact can be felt on the production side also.

The labour force is also highly heterogeneous in many respects. This diversity is apparent even in small areas where the people are speaking the same language. Their castes and customs differ widely. Apart from these, their political loyalty also plays an important role in dividing them into various groups. All these factors make the personnel management a risky and difficult job.

### 3. Economic Environment

Economic environment consists of three important factors namely, economic systems, economic policies and economic conditions. The impact of this environment is much more direct and deliberate than other factors. These three elements of the economic environment should be analyzed individually as well as collectively as a whole.

### 4. Political and Legal Environment

Economic environment within a country is closely linked with the political and legal environment there. Political and legal environment is the background of laws and regulation within which the business firms should conduct their affairs.

The doctrine of “Laizze-faire” has become an outdated or discarded principle and the Government all over the world regulate the business activities. Even in capitalist countries, the Government controls and influences the business policies in many ways.

The degree of control or direction of the Government may differ from country to country but its impact cannot be ruled out elsewhere. Particularly, after the Great Depression, State intervention in the economic life is clearly noticeable in all economies of the world.

In the Indian context, the Government’s role and influence on [business policy](https://accountlearning.com/essentials-of-an-effective-business-policy/) are multifarious. In this environment, Government interacts with business at three levels — local, state and center and exerts varying amounts of influence over business. The Government plays a number of roles as it interacts with business. It is here that the Government acts as a regulator or controller, coordinator, caretaker and guardian, and supplier. Besides, it also acts as a competitor and as a customer.

As stated already, there are certain spheres in India where no private enterprise is allowed to operate. In addition, there is price and distribution control over a number of commodities. Administered prices are also there. Again certain sectors are identified for special encouragement and this discriminates against others.

There is also a comprehensive labour legislation, which force employers to pay minimum wages to workers in specific industries and statutory bonus payment is very liberal in approach. The control of big business is exercised through MRTP Act. The Foreign Exchange Management Act (FEMA) brings Foreign Companies and multinationals operating in India under control. Import and export activities are regulated and restricted by periodical Import and Export Policies announced by the Central Government.

The Government also acts as a supplier as well as a financier through its financial institutions, supplies natural resources needed by the firms etc. In addition to all such influences, there are public sector units to deal with various types of business and they directly compete with private business.

In India, Government is the largest employer and the public sector controls a major share of the corporate sector. The public sector is now mobilizing resources from the open market by issuing securities and bonds, and the nationalized banks are all extending their utmost support in this task.

Above all, tax laws and policies play a decisive role in business policy. Certain policies of the Government even expose the business community to a lot of tension and pressure. All these facts clearly reveal that Government has an upper hand in all the business policies in India.

### 5. Social and Cultural Environment

Of the various environments stated above, the social and cultural environment has the greatest impact on the policies and performance of all business firms. This environment poses a serious challenge to the business, and the business managers while formulating business strategies and policies should give due weight to this pivotal factor.

Social environment is concerned with the environment of society as a whole — of which every one involved. Cultural environment is an aggregate of all sub-cultures each with distinct concepts, beliefs and faith. The society as we all know is not static. We have a dynamic i.e. ever-changing society. New demands are created and old one lost in due course. The business enterprises should constantly watch the developments taking place and make necessary adjustments in their production and marketing plans and strategies to fulfill the new social demands.

Adjusting with the social and cultural development, of course, will enable the firm to reap a rich harvest. Profit is the ultimate object of all business endeavors. Besides, it is the indicator of the efficiency of the business firm. But now the situation is changing.

Businessmen should not act with profit motive only. They have several [social responsibilities](https://accountlearning.com/social-responsibilities-business-towards-community/) also. They should give due weightage to the long-term welfare of the consumers as well as the society. Bearing this point in mind most big companies now-a-days show less profit than that they should have normally earned, just to create a public image.

Some companies have also been asked to be socially responsive. In fact, a number of companies in our country are now spending money for society’s welfare. Some companies are liberally donating their funds to educational institutions and universities for construction of building, for teaching programmes, for scholarships and even offer “Chairs” for specializing subjects. Some big business houses run their own educational institutions.

### 6. Physical and Technological Environment

Physical factors mean and include geographical factors like weather, climatic conditions etc. These factors have a notable influence on business prospects. The availability of physical facilities limits the scope and prospects of business.

Technology refers to the knowledge of how to do things. The dominant features of technology have been made in the last three decades. Particularly for the last ten years, technology has worked wonders. Prof. Kahn and Wiener have called the new development in technology as “Innovation”, “Revolution” or “Break Through”. The technological development can contribute to the economic development.

Joseph Schumpter was the first economist who recognized the place of technology in the sphere of economic development. According to him, industrial growth depends upon technological innovations and the ability to translate technology into profits. Business becomes important at this point. It is the main institution that translates discoveries into application for public use.

The time lag between basic discoveries and the application of these discoveries to commercial products have considerably decreased now.

### Social Responsibility of Business: Meaning and Definitions:

The concept of social responsibility in relation to business means that the firm functions to accomplish its financial objectives and serves the society as well. No business exists in isolation. Every organ of the society contributes towards the success of a business. Thus it becomes imperative that business too does something for the society in return. This responsibility of business towards the society is called social responsibility.

A socially responsible firm should not work solely for profit maximization but should also seek the welfare of different sections of the society. Social responsibility of business refers to its obligations to take those decisions and perform those actions which are acceptable in terms of the objectives and values of the society.

“Social responsibility of business refers to the obligations of businessmen’s decisions and actions taken for reasons at least partially beyond the firm’s direct economic and technical interest.” —Keith Davis

“Social responsibility is to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.” —Howard D. Bowen

“Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.” —United Nations Industrial Development Organisation (UNIDO)

**the significance of social responsibility for a business enterprise:**

#### 1. Long-Term Interest:

It is in the long-term interest of the business to discharge its social obligations by serving different interest groups such as employees, consumers, government and citizens. Wise business persons know that unless they serve the society by fulfilling its needs, they will not be able to climb the success ladder. Working for the society, stakeholders and government helps an organization in establishing a strong public image. On the other hand, a business organization with vested selfish interests may get ignored by the society.

#### 2. Indebted to Society:

A business uses the resources of the society for its functioning. Hence, it becomes obligatory for it to pay back its dues by serving the society. Businessmen should tend to the needs of the society and use its resources for community welfare. This practice ultimately helps the organization in establishing itself on the strong foundation of a pleased society and a cooperative labour force.

#### 3. Social Power:

Business persons are endowed with a lot of social power. They have the potential to change the destiny of the population by collectively deciding for the country on crucial issues such as rate of economic progress, distribution of income among different income groups etc. Ideally, business persons should take up social responsibilities in proportion to their social power.

If the business enterprise misuses its social powers for selfish motives, the society can intervene via government controls and other laws. Therefore, it is morally right for a business to embrace its social obligations and discharge them loyally.

#### 4. Public Image:

A business devoted towards fulfilling its social responsibilities is regarded highly by the society. Good rapport with employees, suppliers, customers and government helps in building a favourable public image of the business enterprise. Moreover, a socially responsible organization is considered trustworthy by the shareholders and investors.

#### 5. Social Awareness:

These days, employees and customers are more informed about their rights. While consumers expect the seller to abide by the fair trade practices, workers want fair wages and other employee benefits. If the expectations of these interest groups are not met, they may resort to either anti-social activities or seek help from trade unions and consumer courts. This will lead to industrial turmoil and unrest within the society which is harmful for proper functioning of the business.

#### 6. To Avoid Government Intervention:

If a business organization fails to acknowledge and perform its social duties, it is bound to lose its freedom and flexibility in the long-run. The Consumer Protection Act and other legislations passed by the government safeguard the interest of the customers against business persons indulging in black-marketing, adulteration, hoarding and many other illegal trade practices. Since, government intervention is not welcomed by business enterprises, social duties should be voluntarily carried out by all the organizations to avoid such situations.

#### 7. Law and Order:

A peaceful society is congenial to the expansion of business. Unable to withstand exploitation by the business enterprises, the weaker sections can rebel and take the law and order in their hands. As a result, the survival of the business can be threatened.

#### 8. Moral Justification:

A business possesses resources such as finance and talent pool to help bail out troubled masses out of social issues like poverty, dowry, unemployment and illiteracy by organizing special campaigns and programs. Additionally, business houses can assist the government in solving many other issues like lack of foreign exchange etc. Moreover, business organizations increase pollution by releasing untreated sewage into the environment. Thus, it is a moral obligation of the business to render its services in tackling these issues.

#### 9. Socio-Cultural Norms:

India has a rich legacy of business values passed down by the legendary and morally upright business owners like Ratan Tata, Azim Premji, etc. Only those business persons who sincerely abide by the canon of business will get the privilege of being honored by the citizens and the government. Hence, the business should aim to promote equal opportunity and maintain healthy inter-personal relations with all the stakeholders such as customers, employees to carve a niche for itself as a honest enterprise.

#### 10. Trusteeship:

The great socio-political leader Mahatma Gandhi propounded the philosophy that owners of wealth and property should hold and use the wealth for the welfare of the society. Therefore, company owners should operate the business not only for their own benefit, but also for the prosperity of the society. According to Keith Davis, since business has the resources to resolve the mounting social problems, it should try and assume the social responsibilities.

### 6. Social Responsibility of Business: Concept:

Every business must conduct its operations so as to produce an overall positive impact on society. Corporate social responsibility (CSR) requires every business to behave ethically and improve the quality of life of society. Every business must decide voluntarily to contribute to a better society and a cleaner environment. CSR is a concept that strikes a happy balance between economic, social, ethical and societal concerns of a business. It forces every business to conduct the show in the best interests of society.

**The essential elements of CSR may be presented thus:**

i. CSR is a moral obligation to conduct operations ethically

ii. It strikes a happy balance between economic, ethical and social issues

iii. It demands every business to conduct the show in the best interests of society at large

iv. Businesses must make profits, but that cannot be at the cost of cus­tomers.

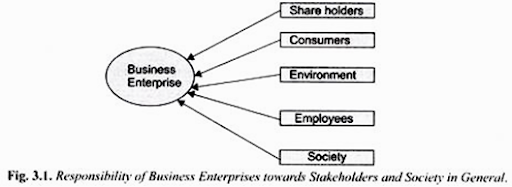
v. It is a voluntary effort undertaken by every business that goes beyond what has been dictated by law.

vi. It is, in short, a company’s sense of responsibility towards the com­munity and environment in which it operates. Now-a-days, the term is extended to include philanthropy (love of humanity) and volunteering (actions undertaken without seeking any gain).

### ****Social Responsibility of Business towards Society:****

There are various interest groups in the society which may affect the functioning of a business organisation.

Such interest groups may be identified as: 1. Shareholders 2. Customers 3. Employees 4. Government 5. Suppliers, creditors and others 6. Society in general.



#### 1. Responsibility Towards Shareholders:

The shareholders take great risk in making investment in a business. Therefore, a business organisation is responsible to safeguard the interest of shareholders who are its owners.

**This can be done by:**

i. Ensuring a fair return on the investment made by shareholders, which is possible when the enterprise earns adequate profit;

ii. Keeping the shareholders informed about the functioning of the organisation;

iii. Strengthening and consolidating the position of enterprise;

iv. Generating adequate funds and reserves for re-investment and also for declaring reasonal by dividend during a lean period;

v. Building up the company’s financial independence;

vi. Keeping up the prices of shares; and

vii. Improving the public image of the company.

#### 2. Responsibility Towards Customers:

Customers are the foundation of business. It is they who keep a business organisation in existence. It is basically to meet the wants of consumers that the society entrusts wealth-producing resources to business organisation.

**It, therefore, becomes obligatory on the part of a business organisation to create and serve customers through:**

i. Supplying goods and services at fair and reasonable prices;

ii. Ensuring good quality of such goods and services;

iii. Ensuring after-sales services;

iv. Ensuring only genuine advertisements, and that too in accordance to public morals and culture;

v. Redressing the grievances of customers, if there are any;

vi. Ensuring adequate research and development to improve quality and reduce cost of production of goods and services; and

vii. Informing about adverse effects, if any, of the goods and services being sold by the organisation.

Responsibility towards customers assumes added significance in case of ‘Shortage economies’ like India.

#### 3. Responsibility Towards Employees:

A business organisation can run effectively only when the morale of its employees is high and their needs are fully met.

**Hence, the management owes responsibility towards its employees which it can discharge in the following manner:**

i. Fair wages to employees.

ii. Adequate training and development facilities.

iii. Reasonable opportunities for promotion.

iv. Good working and living conditions.

v. Adequate welfare facilities and amenities.

vi. Adequate social security measures.

vii. Worker’s participation in management.

viii. Recognition of their personality.

ix. Appreciation for good work and conduct.

x. Progressive and healthy personnel policies and conduct.

Needless to mention that contented labour force is a real asset of an organisation.

#### 4. Responsibility towards Government:

Government provides a number of infrastructure facilities and a conducive environment to business organisation for their proper functioning.

**Therefore, the management of a business organisation can also discharge its responsibility towards the government in the following manner:**

i. By abiding with all relevant government legislation;

ii. By maintaining fair trade policies and practices;

iii. By paying all duties and taxes due from it;

iv. By avoiding political favours; and

v. By not giving any bribe, etc., to any government official, etc.

#### 5. Suppliers, Creditors and Others:

The functioning of a business enterprise is also affected by the suppliers, creditors and other interest groups with whom the business has to interact. Hence, management owes a responsibility towards such interest groups.

**This can be performed in the following manner:**

1. Prompt payment to suppliers.

2. Prompt payment of interest to lenders.

3. Furnishing of accurate information to creditors, financial institutions and suppliers.

4. Proper liaison with all interest groups.

Discharging of the responsibility towards suppliers and creditors, etc., boosts the public image of the enterprise.

#### 6. Responsibility towards the Society in General:

A business enterprise exists and functions in the society. It is an integral part of our social system which facilitates its functioning.

**Hence, it owes a special responsibility towards the society in general which can be discharged in the following way:**

1. By extending general amenities to society;

2. By assisting in improving the standard of living of the people of the community;

3. By avoiding pollution of the environment;

4. By avoiding wasteful expenditure;

5. By establishing socially desirable standards;

6. By keeping in view the social norms, conventions, traditions and customs while forming its policies and programmes; and

7. By adopting some village(s) for its/their social and economic development.