

1. Details of Module and its structure

Module Detail	
Subject Name	Business Studies
Course Name	Business Studies 03 (Class XII, Semester - 1)
Module Name/Title	Business Environment – Meaning, features, importance and dimensions: Part – 1
Module Id	lebs_10301
Pre-requisites	Knowledge about the Knowledge about business
Objectives	After going through this lesson, the learners will be able to understand the following: <ol style="list-style-type: none">1. Meaning of Business Environment2. Features of Business Environment3. Importance of Business Environment4. Dimensions/elements of Business Environment
Keywords	Business Environment, External forces, Specific and general forces, Inter-relatedness, Dynamic nature, Uncertainty, Complexity, Relativity, Environment Scanning

2. Development team

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1. Introduction

The success of every business is dependent not merely on their internal management but adapting itself to the external environment within which it functions.

For example

Change in Business Environment	Effect on Performance of Business Enterprise
Increase taxes by government	Increase cost of production hence things become expensive to buy.
Increase competition in the market	Reduction in profit margin
Change in fashion and taste of consumers	Shift in market demand from existing product to a new product e.g., the demand for jeans reduced the sale of other traditional wear. The demand for jeans reduced the sale of other traditional wear.
Technological improvements and innovations	Render existing product obsolete. Eg: LCD TV become obsolete with introduction of LED TV
Political uncertainty	Greatest fear in the mind of investors to invest in long term projects.

All these aspects are external factors that are beyond the control of the business. So the business units must have to adapt themselves to these changes in order to survive and succeed in business. Hence, it is very necessary to have a clear understanding of the concept of business environment and the nature of its various components.

2. Meaning of business Environment

The term 'business environment' means the sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but that may affect its performance.

Business Environment = Individuals + Institutions + Other forces

Individuals: customers, governments, competitors, suppliers, lenders etc.

Institutions: courts, media, Banks etc.

Other Forces: Social, Legal, Economic, Political and Technological forces

As one writer has put it– “Just take the universe, subtract from it the subset that represents the organisation, and the remainder is environment”.

Features:

Features of business Environment

Totality of external forces

Specific and general forces

Inter-relatedness

Dynamic nature

Uncertainty

Complexity

Relativity

(i) Totality of external forces

Business environment is sum total of all things external to business firms and, as such, is aggregative in nature. Thus business environment is not a single thing rather it is aggregate of all the external things.

Business Environment = Individuals + Institutions + Other forces

(ii) Specific and general forces

Business environment 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.

(iii) Inter-relatedness:

Different elements or parts of business environment are closely inter-related. Thus, a change in one factor affects the other factor.

For example,

- Increased life expectancy of people and increased awareness for health care have increased the demand for many health products and services like diet Coke, fat-free cooking oil, and health resorts. New health products and services have, in turn, changed people's life styles.
- There is a change in the import-export policy with the coming of a new government. In this case, the coming of new government to power and change in the import-export policy are political and economic changes respectively.

(iv) Dynamic nature:

As is clear that environment is a mixture of many factors and changes in some or the other factors continue to take place. Business environment is dynamic and never remains same. It does not remain constant or static for a longer period of time. It keeps on changing whether in terms

of technological improvement, shifts in consumer preferences or entry of new competition in the market etc.

(v) 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 or fashion industries. Nobody can anticipate the possibility of these swift technical changes. Anything can happen, anytime.

(vi) Complexity:

- Since business environment consists of numerous interrelated and dynamic conditions or forces which arise from different sources, it becomes difficult to comprehend at once what exactly constitutes a given environment. All these factors are related to each other. Therefore, their individual effect on the business cannot be recognised.
- In other words, environment is a complex phenomenon that is relatively easier to understand in parts but difficult to grasp in its totality.

For example : 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.

(vii) 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.
- Demand for sarees may be fairly high in India whereas it may be almost non-existent in France.
- Eating habits of people living in Punjab differ from people living in Gujrat which has impact on food businesses in those areas.

3. Importance of Business Environment/ Importance of Environment Scanning

Just like human beings, business enterprises do not exist in isolation. Each business firm is not an island unto itself; it exists, survives and grows within the context of the element and forces of its environment. While an individual firm is able to do little to change or control these forces, it has no alternative to responding or adapting according to them. A good 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.

The importance of business environment/environment scanning

It enables the firm to identify opportunities and getting the first mover advantage

It helps the firm to identify threats and early warning signals

It helps in tapping useful resources

It helps in coping with rapid changes

It helps in assisting in planning and policy formulation

It helps in improving performance

4. Environment Scanning

The process by which firms monitor their relevant environment to identify opportunities and threats affecting their business is called Environment Scanning.

The importance of business environment and its understanding by managers can be appreciated if we consider the following facts:

(i) It enables the firm to identify opportunities and getting the first mover advantage:

- Opportunities refer to the positive external trends or changes that will help a firm to improve its performance.
- Environment provides numerous opportunities for business success. Early identification of opportunities helps an enterprise to be the first to exploit them instead of losing them to competitors. The firms which are able to scan these opportunities at an early stage get maximum benefit and can leave their competitors behind.
- **For example :**
 - Maruti Udyog became the leader in the small car market because it was the first to recognise the need for small cars in an environment of rising petroleum prices and a large middle class population in India.
 - Scientific research has come out with an energy efficient light bulb which lasts at least 20 times more than a normal bulb. General Electric and Phillips had identified this discovery and they were first one to come up with these new bulbs
 - For example, when Maruti Company was planning to sign a contract with Suzuki Company of Japan then the Goodlass Nerolac Company was the first company to understand the environment and to find out that very soon there will be a great demand for car painting in India and no paint company in our country was having car paint technology. So, Nerolac Company made use of this opportunity and signed a contract with Kansai Paint Company to import the car painting technology and when the Maruti started its car manufacture in India then Nerolac company got all the car painting contracts of Maruti company and today also 90% of car paint work of Maruti is done by Nerolac Goodlass Company.

(ii) It helps the firm to identify threats and early warning signals:

- Threats refer to the external environment trends and changes that will hinder a firm's performance.

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- Besides opportunities, environment happens to be the source of many threats. Environmental awareness can help managers to identify various threats on time and serve as an early warning signal.
 - For example
 - If an Indian firm finds that a foreign multinational is entering the Indian market with new substitutes, it should act as a warning signal. On the basis of this information, the Indian firms can prepare themselves to meet the threat by adopting such measures as improving the quality of the product, reducing cost of the production, engaging in aggressive advertising, and so on.
 - On scanning the business environment, the Maruti Udyog Company got the qualitative information that more foreign car manufacturing companies are going to set up their business in India. They took it as a warning signal and started increasing their production capacity. They increased their production capacity by 3 folds, especially the production of Esteem car which they were manufacturing 65 cars per day increased to 80 cars per day.

(iii) It helps in tapping useful resources:

Environment is a source of various resources for running a business.

- **Inputs from environment:** To engage in any type of activity, a business enterprise assembles various resources called inputs like finance, machines, raw materials, power and water, labour, etc., from its environment including financiers, government and suppliers. They decide to provide these resources with their own expectations to get something in return from the enterprise.
- **Output to environment:** The business enterprise supplies the environment with its outputs such as goods and services for customers, payment of taxes to government, return on financial investment to investors and so on.
- **Environment as a source of inputs or resources and as an outlet for outputs:** Because the enterprise depends on the environment as a source of inputs or resources and as an outlet for outputs, it only makes sense that the enterprise designs policies

that allow it to get the resources that it needs so that it can convert those resources into outputs that the environment desires. This can be done better by understanding what the environment has to offer.

(iv) It helps in coping with rapid changes:

Today's business environment is getting increasingly dynamic where changes are taking place at a fast pace. 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.

Businessmen make changes in their internal environment also to match the external environment. So environment scanning helps in coping with the rapid changes.

For Example : By scanning business environment the Ambani brothers recognised that today's environment demands quick decision so they shifted from centralisation to decentralisation.

(v) It helps in assisting in planning and policy formulation:

Since environment is a source of both opportunities and threats for a business enterprise, its understanding and analysis can be the basis for deciding the future course of action (planning) or training guidelines for decision making (policy). Scanning of environmental factors helps in finding out the opportunities of business and strategies can be made to grab these opportunities.

For example :

- Entry of new players in the market, which means more competition may make an enterprise think afresh about how to deal with the situation.
- On scanning the Indian Business Environment it was found that there is great scope for tourism industry in our country so various hotels of private, public sector, ITC group are making new strategies for tourists. There is a separate travel segment set up and separate leisure and fun segment is set up to get the benefit of upcoming Tourist Industry.

(vi) It helps in improving performance:

With continuous scan of Business environment companies can not only improve their present performance but also continue to succeed in the market for a longer period. By making changes in the internal environment matching to external environment, organisations can prosper and improve their market share.

For example,

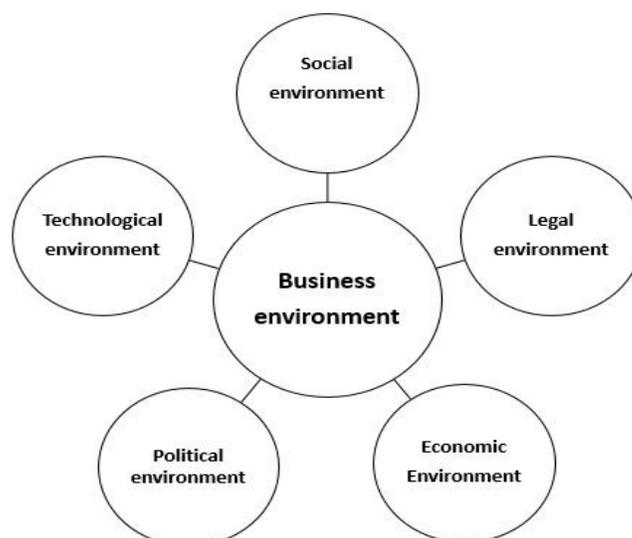
Weston Company which could not cooperate with the changing environment started suffering loss and lost its name in T.V. market whereas Sony, LG, Samsung etc. did scan the environment well and are still competing successfully and earning good profits.

5. Dimensions of Business Environment

Dimensions of, or the factors constituting the business environment include economic, social, technological, political and legal conditions which are considered relevant for decision-making and improving the performance of an enterprise.

In contrast to the specific environment, these factors explain the general environment which mostly influences many enterprises at the same time. However, management of every enterprise can benefit from being aware of these dimensions instead of being disinterested in them.

6. Components/dimensions /elements of Economic Environment



(i) **Economic Environment:**

Some economic factors that can affect management practices in a business enterprise are:

- Interest rates
- inflation rates
- changes in disposable income of people
- stock market indices
- value of rupee
- Money supply in the economy
- Rates of saving and investment
- Volume of imports and exports of different items

Examples

- i. In case of construction companies and automobile manufacturers, low longer-term rates are beneficial because they result in increased spending by consumers for buying homes and cars on borrowed money.
- ii. A rise in the disposable income of people due to increase in the gross domestic product of a country creates increasing demand for products.
- iii. High inflation rates generally result in constraints on business enterprises as they increase the various costs of business such as the purchase of raw materials or machinery and payment of wages and salaries to employees.
- iv.

Other components of economic environment

- Existing structure of the economy in terms of relative role of private and public sectors.
- The rates of growth of GNP and per capita income at current and constant prices
- Balance of payments and changes in foreign exchange reserves Agricultural and industrial production trends
- Expansion of transportation and communication facilities
- Public debt (internal and external)
- Planned outlay in private and public sectors

(ii) **Social Environment:**

The social environment of business include the social forces like

- Customs and traditions
- Values,
- Social trends
- Society's expectations from business
- Shifts in the presence of women in the workforce
- Educational system and literacy rates
- Composition of family
- Birth and death rates etc.

Examples

- i. The celebration of Diwali, Id, Christmas, and Guru Parv in India provides significant financial opportunities for greetings card companies, sweets or confectionery manufacturers, tailoring outlets and many other related business.
- ii. The health-and-fitness trend has become popular among large number of urban dwellers. This has created a demand for products like organic food, diet soft drinks, gyms, bottled (mineral) water and food supplements. This trend has, however, harmed business in other industries like dairy processing, tobacco and liquor.
- iii. Due to change in family composition, more nuclear families with single child concepts have come up. This increases the demand for the different types of household goods.
- iv. Values refer to concepts that a society holds in high esteem. In India, individual freedom, social justice, equality of opportunity and national integration are examples of major values cherished by all of us. In business terms, these values translate into freedom of choice in the market, business's responsibility towards the society and non-discriminatory employment practices.

Other components of social environment

- Attitudes towards product innovations, lifestyles, occupational distribution and consumer preferences

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- Concern with quality of life
 - Life expectancy
 - Expectations from the workforce
 - Population shifts
 - Consumption habits

(iii) **Technological Environment:**

Technological environment includes forces relating to

- Scientific improvements and innovations which provide new ways of producing goods and services
- New methods and techniques of operating a business.

Examples

- i. Recent technological, advances in computers and electronics have modified the ways in which companies advertise their products. It is common now to see CD-ROM's, computerised information kiosks, and Internet/ World Wide Web multimedia pages highlighting the virtues of products.
- ii. Airline companies have Internet and World Wide Web pages where customers can look for flight times, destinations and fares and book their tickets online.
- iii. In addition, continuing innovations in different scientific and engineering fields such as lasers, robotics, biotechnology, food preservatives, medicine, telecommunication and synthetic fuels have provided numerous opportunities and threats for many different enterprises.
- iv. Shifts in demand from vacuum tubes to transistors, from steam locomotives to diesel and electric engines, from fountain pens to ballpoint, from propeller airplanes to jets, and from typewriters to computer based word processors, have all been responsible and creating new business.
- v. Because of technological advancement, it has become possible to book railway tickets through Internet from home, office etc..

Hence, in order to survive and grow in the market, a business has to adopt the technological changes from time to time. It may be noted that scientific research for improvement and innovation in products and services is a regular activity in most of the big industrial organisations. Now a days in fact, no firm can afford to persist with the outdated technologies.

iv) Political Environment:

Political environment includes political conditions such as

- general stability
- peace in the country
- Specific attitudes that elected government representatives hold towards business
- ideology of the political party
- The Constitution of the country
- The level of political morality
- Prevailing political system etc.

Examples

- i. Even after opening up of our economy in 1991, foreign companies found it extremely difficult to cut through the bureaucratic red tape to get permits for doing business in India. Sometimes, it took months to process even their application for the purpose. As a result these companies were discouraged from investing in our country. The situation has improved over time.
- ii. Political stability, Major thus, builds up confidence among business people to invest in the long term projects for the growth of the economy. Political instability can shake that confidence.
- iii. Similarly, the attitudes of government officials towards business may have either positive or negative impact upon business.
- iv. An aggressive takeover could overthrow a government. This could lead to riots, looting and general disorder in the environment. These disrupt business operations. Sri Lanka was in a similar state during a civil war. Egypt and Syria faced disturbances too.

Other Elements of Political Environment

- The degree of politicisation of business and economic issues
- Dominant ideologies and values of major political parties
- The nature and profile of political leadership and thinking of political personalities
- Political institutions like the government and allied agencies
- Political ideology and practices of the ruling party
- The extent and nature of government intervention in business
- The nature of relationship of our country with foreign countries

v) Legal Environment:

Legal environment includes

- Various legislations passed by the Government (Companies Act 1956; Industries (Development and Regulations) Act 1951; Industrial Disputes Act, 1947, Consumer Protection Act, 1986 and host of such other legal enactments as amended from time to time)
- Administrative orders issued by government authorities
- Court judgments
- The decisions rendered by various commissions and agencies at every level of the government— centre, state or local.

It is imperative for the management of every enterprise to obey the law of the land. Therefore, an adequate knowledge of rules and regulations framed by the Government is a pre-requisite for better business performance Non-compliance of laws can land the business enterprise into legal problems.

Examples

- i. The advertisement of alcoholic beverages is prohibited. Advertisements, including packets of cigarettes carry the statutory warning ‘Cigarette smoking is injurious to health’.
- ii. Advertisements of baby food must necessarily inform the potential buyer that mother’s milk is the best. All these regulations are required to be followed by advertisers.

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- iii. A trade license is required which is a permission to carry on a specific trade or business at the premises for which it has been issued. Any unauthorised running of trade is an offence which may result in a substantial penalty and subsequent prosecution.