

# **Chapter 3**

## **Enterprise and Business Environment**

# Learning objectives

- The business environment nature of the enterprise.
- General environment.
- Working environment.
- Internal environment.

# Environment

- The term environment refers to the totality of all the factors that are external to and beyond the control and management of enterprises.
- It differs not only over space but also over time within a country.
- Future environment is the product of past and present environments.
- It can be classified into economic and noneconomic factors.

# Business environment

- The business environment is the result of a number of interacting and constantly changing social and economic forces that affect an enterprise either internally or externally.
- It is necessary for every business to comprehend the nature and structure of the business environment and the factors causing change in it.
- The business environment for a firm is a multi-layered structure, where some layers are advantage, and some are disadvantage.

# Business environment (Cont.)

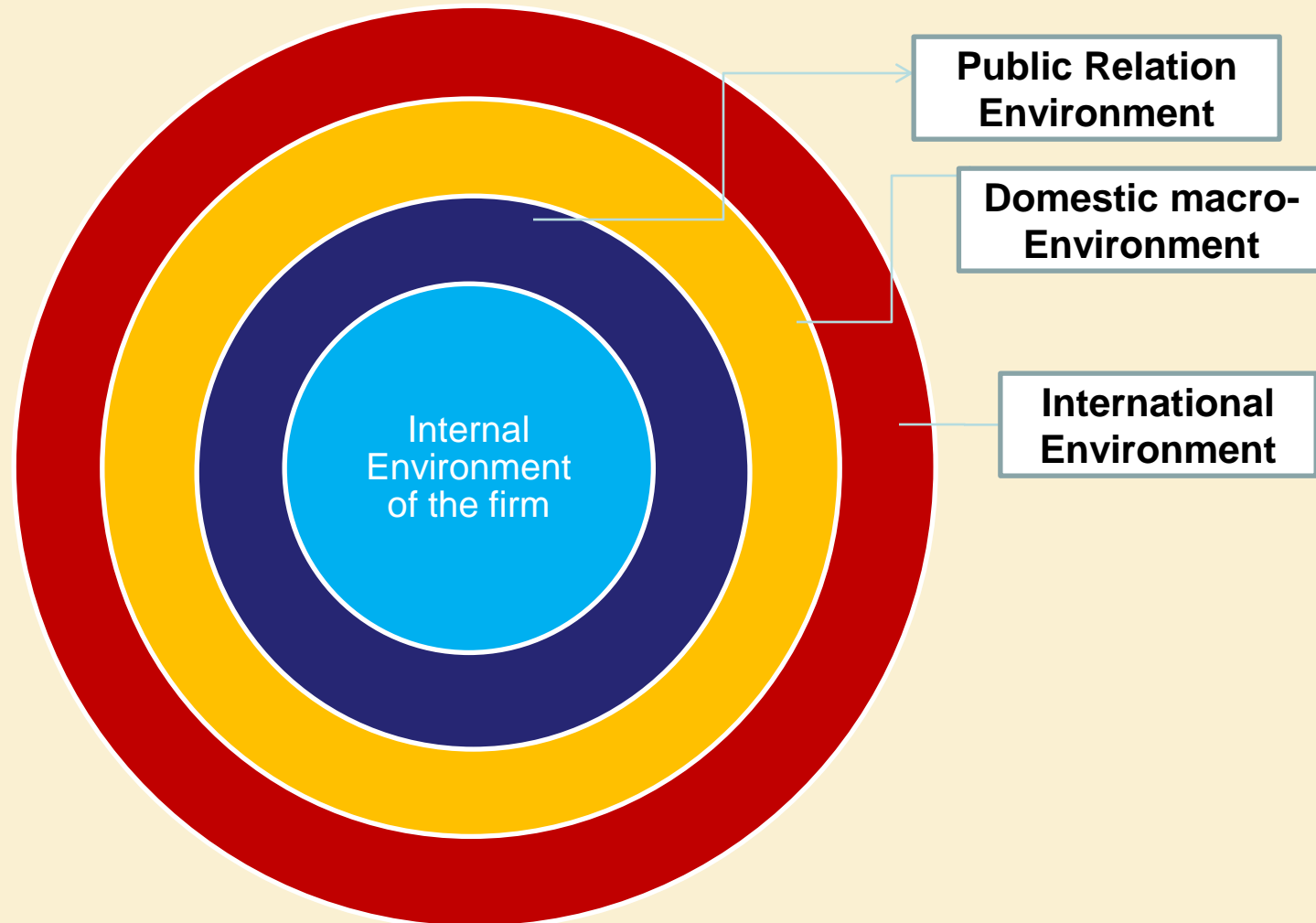
- ***According to Arthur M. Weimer,***  
“Business Environment is the climate or set of conditions- Economic, Social, political or Institutional in which business operations are conducted”

# **Nature of business environment**

- Interdependent.
- Dynamic.
- Uncertain.
- Unlimited effects of uncontrollable factors.
- Keep a regular vigil on the changing environment.

# Nature of business environment (Cont.)

- Different layers of Business Environment



# Macro Environment – International Environment

- Most volatile and Dynamic.
  - ❖ Change in Exchange Rate.
  - ❖ State of world Economy (Ex . Recession).
  - ❖ Interdependence between National and International Economic Policies.
  - ❖ International Economic laws.



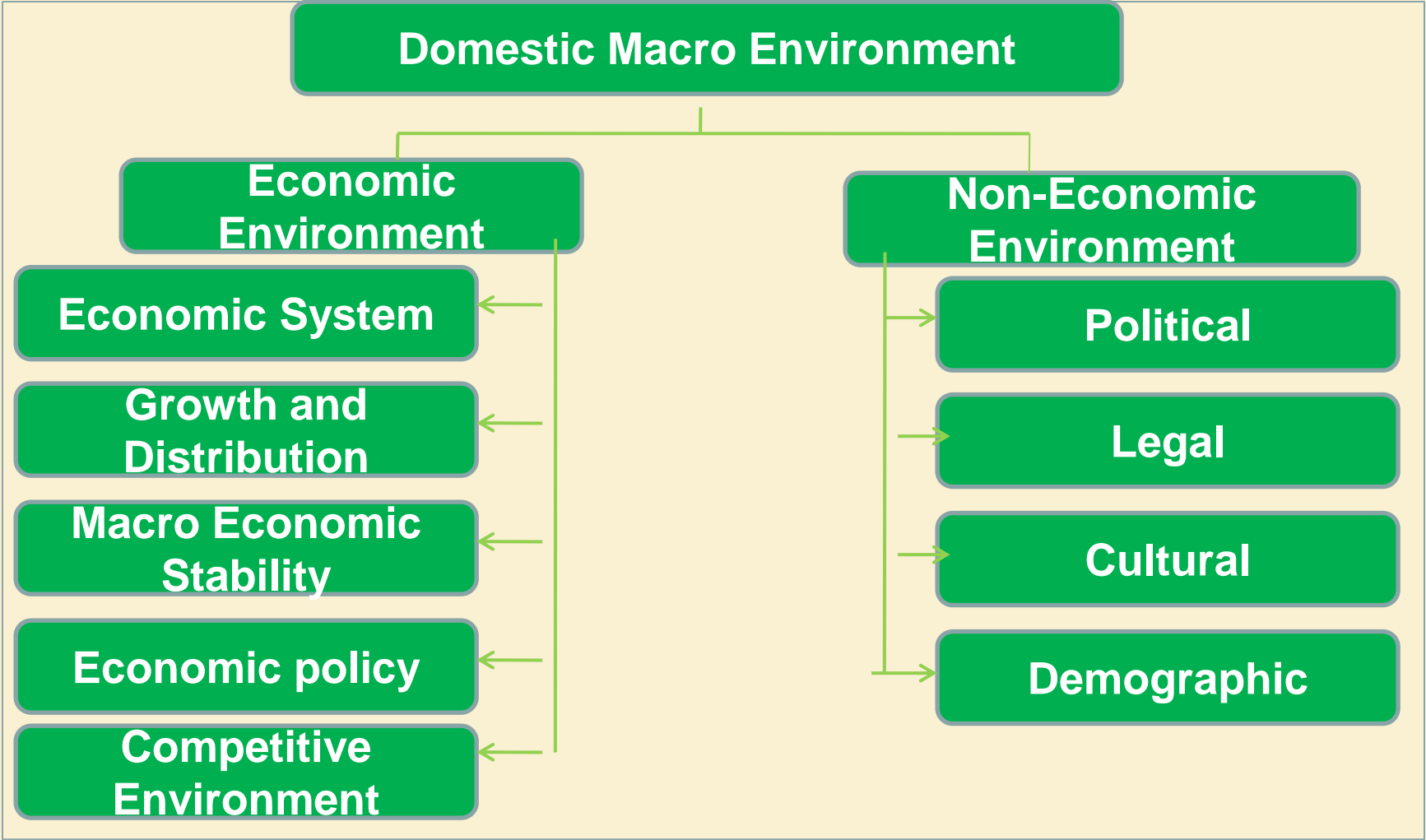
# Macro Environment – International Environment (Cont.)

- Major Events Affecting the International Environment in the Past Years:
  - ❖ For examples,
    - Formation of the WTO in 1995 and ratification of the earlier agreements on trade and related issues.
    - The emergence of the European Union and the introduction of the Euro as a common currency
    - Increase in the number of free trade areas (NAFTA).
    - Presence of MNCs the world over.
    - Etc.

# Macro Environment – Risks involved in International Environment

- *Political risk*: Emanating from political instability, changes in government, the possibility of confiscation (elimination, subtraction), and nationalization.
- *Country risk*: It is concerned with the performance of an economy (e.g., changes in a competitive environment, fiscal deficit, internal debt growth, etc.).
- *Cultural risk*: Affecting consumer attitudes towards foreign goods and changes in fashion, tastes, and preferences.

# Macro Environment – Domestic Macro Environment



# Domestic Macro Environment - Economic Environment (Cont.)

- ***Economic environment***

- ❖ ***Economic system***

- Economic system is a way in which a society is organized to decide 3 basic questions.
  - ✓ What to produce and in what quantities?
  - ✓ How to produce?
  - ✓ For whom to produce?
- It provides the framework in which an economy operates.
- It reflects the economic thinking of a country.

# Domestic Macro Environment - Economic Environment (Cont.)

- ***Economic environment***

- ❖ ***Major economic system***

- ***Capitalist Market Economy***

- ✓ A system which encourages private enterprises, free play of market forces.
- ✓ The factors of production are privately owned, and production occurs at the initiative of the private enterprise.
- ✓ Government plays little role in economic decision making.
- ✓ Ex. USA, Canada, Australia and almost all Developed countries.

# Domestic Macro Environment - Economic Environment (Cont.)

- ***Economic environment***

- ❖ ***Major economic system***

- ***Socialist economic system***

- ✓ Productive resources are organized, owned and managed by government. but resource allocation, production and distribution decisions are based on the principle of Market.
- ✓ Government control and ownership.
- ✓ Emphasis on equality of income.
- ✓ Ex. China, etc.

# Domestic Macro Environment - Economic Environment (Cont.)

- ***Economic environment***

- ❖ ***Major economic system***

- ***Mixed economy***

- ✓ None of the two elements (market and government) has a dominant presence.
- ✓ Co-existence of both the public and private sectors.
- ✓ Freedom of selection of profession, employment, and trade.
- ✓ e.g., India and most other developing Countries
- ✓ The role of the government is both regulatory and developmental.

# Domestic Macro Environment - Economic Environment (Cont.)

- ***Economic environment***

- ❖ ***Growth and distribution***

- Economic growth refers to an increase in real output over a period of time (usually a year).
- Measures of real output: Gross Domestic Product (GDP), Net Domestic Product (NDP), National Income (NY), and disposable income.
  - ✓  $GDP = C + I + G + (X - M)$ .
  - ✓  $NDP = GDP - \text{Depreciation}$ .
  - ✓  $NY = NDP - \text{Net Indirect Taxes}$ .
  - ✓  $DY = NY - \text{Direct taxes}$ .



# Domestic Macro Environment - Economic Environment (Cont.)

- ***Economic environment***
  - ❖ ***Macro economic stability***
    - Stability of Price level.
    - Exchange Rate.
    - Money Supply.
    - Aggregate Demand.
    - Balance of Payment.
    - Employment Rate.

All these variables are interdependent and interactive, and one variable has the potential to upset the other.

# Domestic Macro Environment - Economic Environment (Cont.)

- ***Economic environment***

- ❖ ***Economic policy***

- It refers to government policy toward the economy as a whole.
- Basic objective growth, economic stability, increased employment, stabilization of the balance of payments (BOP), correcting the regional imbalance, and making the economy more competitive.
- The effect of these policies may be favorable for some categories of business or unfavorable for some other categories of business. e.g., incentives and subsidies.

# Domestic Macro Environment - Economic Environment (Cont.)

- ***Economic environment***

- ❖ ***Economic policy***

- ***Components of economic policy***

- ✓ ***Monetary policy***

- ☐ It refers to all actions of the central bank that affect the direct or indirect supply of money, rate of interest, and banking system.

- ☐ Affect the cost and availability of credit.

- ✓ ***Fiscal policy***

- ☐ Concerned with the use of taxes and government expenditure.

# Domestic Macro Environment - Economic Environment (Cont.)

- ***Economic environment***

- ❖ ***Economic policy***

- ***Components of economic policy***

- ✓ ***Industrial policy***

- ☐ Promotes industrialization.
- ☐ Correcting regional balances.
- ☐ Developing sectoral linkages.
- ☐ Promoting Export and Import Substitution.
- ☐ Affect the cost and availability of credit.

- ***Trade policy***

- ☐ Improve terms of trade.
- ☐ Enhance export competitiveness.

# Domestic Macro Environment - Economic Environment (Cont.)

- ***Economic environment***

- ❖ ***Competitive environment***

- The state of competition
  - ✓ Freedom of entry and exit in the market.
  - ✓ Price.
  - ✓ Scale of output.
- Decides on competitive strategies
  - ✓ Trust and mutual business.
  - ✓ Predatory pricing: charging lower prices initially so that others move out of the market. Once a monopoly or oligopoly is attained, raise the prices.
  - ✓ Price discrimination.

# Domestic Macro Environment - Non-Economic Environment (Cont.)

- ***Non-Economic environment***

- ❖ ***Competitive environment***

- ***Political Environment.*** Whenever there is a change in the political scenario of a country, there will be a change in economic policies. E.g., international political relations (war), etc.
- ***Legal Environment.*** Provides a sense of security and safety; a code of conduct, leaves away black marketing, tax evasion, gray markets, insider trading, etc. E.g., the Consumer Protection Act, patents (manufacturing goods or processes), and copyrights.

# Domestic Macro Environment - Non-Economic Environment (Cont.)

- ***Non-Economic environment***

- ❖ ***Competitive environment***

- ***Cultural Environment***

- ✓ Culture is a set of socially accepted and shared traditional beliefs, values, and customs.
- ✓ Plays an important role in after-sale services, industrial relations, customer relationships, and overall HRM.

- ***Demographic***

- ✓ Population density, gender ratio (male-female ratio), age, composition, and life expectancy.
- ✓ Helps in market segmentation and product positioning.

# Micro Environment

- Public Relations Environment.
- Internal Environment.



# Micro Environment - Public Relations Environment



A diagram illustrating the Micro Environment - Public Relations Environment. It features five green rectangular boxes with white text, arranged in two rows. The top row contains three boxes labeled 'Suppliers', 'Customers', and 'Distribution Channels'. The bottom row contains two boxes labeled 'Rivals' and 'Others'. All boxes have a thin white border.

Suppliers

Customers

Distribution  
Channels

Rivals

Others

# Micro Environment - Public Relations Environment (Cont.)

- **Suppliers:** They provide inputs regularly and ensure reasonable prices, appropriate quality, fairness in dealing, rational delivery terms, and timely schedules. All these add to the firm's competitiveness in the market.
- **Customers:** An organization exists for the customer, and all activities must be customer-focused. Firms should focus on Customer Relationship Management.
- **Rivals:** An enterprise competes with its rivals on price, quality, packaging, delivery, after-sale services, product substitution, etc.

# Micro Environment - Public Relations Environment (Cont.)

- ***Distribution Channel Members***: They are the link between firms and customers. The channel member must thoroughly understand the product's competitive advantage and values and convey the right message from the channel to the customer.
- ***Other entities***: Local Population Groups, Human rights activists, Anti-Pollution campaigners, consumer protection groups, Government, etc. All these help firms gain a better image in society.

# **Micro Environment – Internal Environment**

- Mission and vision.
- Management philosophy and strategy.
- Industrial relations.
- Corporate culture and values.
- Quality control system.
- Job design and coordination.
- Compensation system and career progression of employees.
- Team spirit among employees.

# In conclusion

- The business environment nature of the enterprise.
- General environment.
- Working environment.
- Internal environment.

Understand



**THANK YOU  
FOR YOUR ATTENTION**

**Q&A**