

UNIT-VII
CHAPTER
19

ENVIRONMENTAL FACTORS

INTRODUCTION

Business Environment is the sum total of all external and internal factors that influence a business. The external factors and internal factors can influence each other and work together to affect a business. The aggregate of all factors, forces and institutions which are external to and beyond the control of an individual business enterprise but which exercises a significant influence on the functioning and growth of individual enterprises business environment. The understanding of business environment is essential for taking important decisions and ensuring success. This chapter clearly explains the importance environmental factors in the success of a business.

I. CHOOSE THE CORRECT ANSWERS

1. VUCA stands for _____, _____, _____.
2. GST stands for _____, _____, _____.
3. Factor within an organisation constitutes _____ environment.
4. Macro environment of business is an _____ factor.
5. The two major types of business environment are _____ and _____.
6. _____ environment includes weather and climate condition.
7. The size and composition of the population is part of _____.

ANSWERS

1	2	3	4	5	6	7
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II. VERY SHORT ANSWER QUESTIONS:

1. Define Business environment

According to Bayard O 'Wheeler Business environment is "the total of all things external to firms and industries which affect their organisation and operations".

2. What is internal environment?

- ❖ Internal environment refers to those factors within an organisation.
- ❖ E.g Policies and programmes, organisational structure, employees, financial and physical resources.

- ❖ These factors can be changed or altered and hence are known as controllable factors.

3. Give the meaning of corporate governance.

- ❖ Corporate governance is a set of rules and policies which governs a company.
- ❖ It provides a frame work for managing a company and achieving its objectives.
- ❖ It gives guidelines for internal control, performance measurement and corporate disclosure.
- ❖ Corporate governance lays down the rules and responsibilities of the stakeholders of a company primarily the shareholders, the directors and the management.
- ❖ Corporate governance is based on the four fundamental pillars of fairness, transparency, accountability and responsibility.

4. What is GST?

- ❖ GST is the indirect tax levied on goods and services across the country.
- ❖ It is a comprehensive, multi-stage, destination-based tax that is levied on every value addition.

5. Expand VUCA.

- ❖ Volatility
- ❖ Uncertainty
- ❖ Complexity
- ❖ Ambiguity

6. What is mixed economy?

- ❖ An economic system in which both the private enterprise and a degree of state monopoly coexist.
- ❖ All modern economies are mixed where the means of production are shared between the private and public sectors.
- ❖ It is also called as dual economy.

7. What is market?**8. What is mean by Commodity Market?****9. What is mean by Regulated Market?****10. Mention any four differences between wholesales market and retail market?****11. Why Customer support is needed to market?**

III. SHORT ANSWER QUESTIONS:

1. Explain the natural environment of business.

- ❖ The nature of economy based on the stage of development.
- ❖ The countries across the globe can be categorised on the basis of growth and per capita income as developed nations, developing nations and underdeveloped nations.
- ❖ The economic systems can be classified as Capitalistic, Socialistic and Mixed economy.

- ❖ Capitalistic economy is a free enterprise market where individual ownership of wealth is predominant.
- ❖ Socialistic economy is a state controlled with a lot of restrictions on private sector.
- ❖ Mixed economy is a combination of both state owned and private sector ownership.
- ❖ The Economic indices like GDP, GNP national income, per-capita income, balance of payments, rate of savings and investments etc. form an important part of economic environment.
- ❖ The organisation and development of money market, capital market securities market and, the banking system has a greater impact.
- ❖ The Economic structure includes capital formation, investment pattern, composition of trade balance, occupational distribution of workforce, and the structure of national output.

2. What are the political environment factor?

The major elements of the legal and political environment are

- 1) Political stability is reflected by the following parameters like the election system, the law and order situation, the role and structure of Military and Police force, the declaration of President's rule, civil war etc.
- 2) Political organisation refers to the ideology and philosophy of the political parties, the government, the role and degree of authority of bureaucracy, the level of political consciousness among citizens and the funding of political parties by business houses and the clout wielded by them.
- 3) The image of the leader and the country in the inter-national arena.
- 4) Legal framework of business and their degree of flexibility.
- 5) The constitution of the nation.
- 6) The Foreign policy of the country with special reference to tariffs and free trade.

3. Write about any three internal environmental factors of business.**i . Values system:**

- ❖ The values of the founder/owner of the business , percolates down to the entire organisation and has a profound effect on the organisation.

- ❖ The success of an organisation depends upon the sharing of value system by all members.
- ❖ External business associates like suppliers and distributors consider the value system practised by an organisation with strong culture of ethical standards and values.

ii. Vision and objectives:

- ❖ The vision and objectives of a business guides its operations and strategic decisions.
- ❖ Example 'Amul the taste of India' Gujarat Co-operative Milk Marketing Federation GCMMF
- ❖ Vision: Liberate our farmers from economic oppression and lead them to prosperity.

iii. Company image:

- ❖ The image of an organisation plays an important role in introducing new products, selecting agents and dealers for distribution, forging alliances with suppliers, expanding and entering new markets both domestic and international, raising finance etc.

4. State the framework of Corporate Governance in India

The Indian Corporate Governance framework requires listed companies

- i) To have independent directors on the board;
- ii) At least one third of the directors have to be independent directors.
- iii) To have at least one independent woman director
- iv) To disclose all deals and payments to related parties.
- v) To disclose details of managerial compensation
- vi) CEO and CFO to sign stating that the governance norms have been complied with in the financial statements.

5. What are the functions of the GST council?

The Goods and Services Tax Council shall make recommendations to the Union and the States on:

- a. the taxes, cesses and surcharges levied by the Union, the States and the local bodies which may be subsumed in the goods and services tax.
- b. the goods and services that may be subjected to, or exempted from the goods and services tax.

- c. Model Goods and Services Tax Laws, principles of levy, apportionment of Goods and Services Tax levied on supplies in the course of inter-State trade or commerce under article 269A and the principles that govern the place of supply.
- d. the threshold limit of turnover below which goods and services may be exempted from goods and services tax
- e. the rates including floor rates with bands of goods and services tax
- f. any special rate or rates for a specified period, to raise additional resources during any natural calamity or disaster.
- g. special provision with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand and
- h. any other matter relating to the goods and services tax, as the Council may decide

6. Write a note on future environment of business.

- ❖ The future environment of business has been captured aptly in the acronym VUCA – volatility, uncertainty, complexity and ambiguity, developed in the late 80's by the U.S military.
- ❖ Every business has to take strategic decisions.
- ❖ The dynamic ever changing environment, the unpredictability of various factors, the multiplicity of forces affecting business and the lack of clarity are the variables which affects business.
- ❖ It is now important for every business to meet the challenges posed by the environment in order to remain competitive.
- ❖ The uncertain conditions and situations requires a firm to be prepared to face the volatility by planning.
- ❖ The presence of complex variables impacting business should be understood and alternative measures for solving the issues should be developed.
- ❖ In an VUCA environment a firm has to be forward looking anticipating the change, adaptability will remain essential for the success of any business in an ambiguous, uncertain environment.

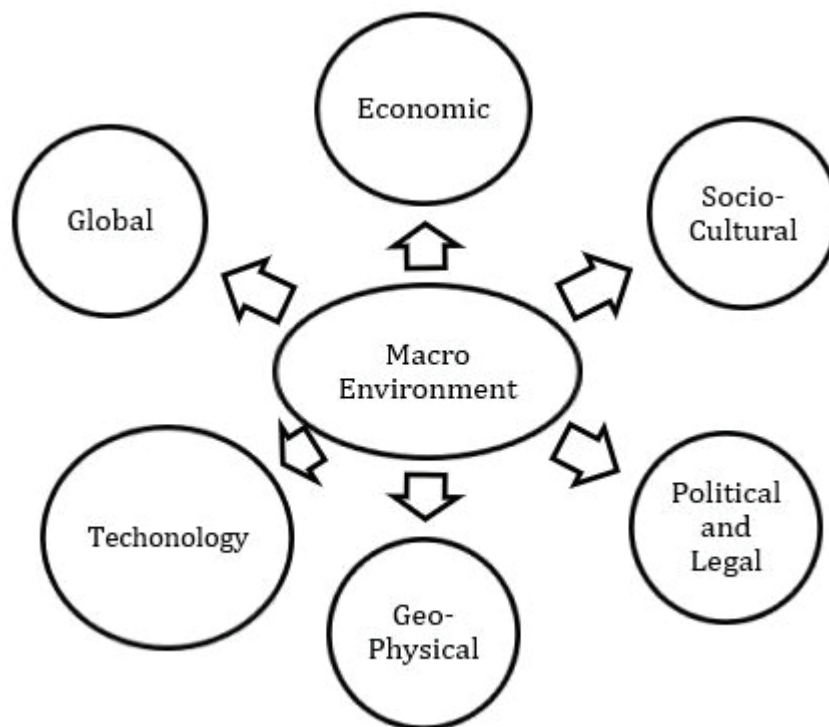
7. What do you know about Technological environment?

- ❖ The development in the IT and tele communications has created a global market.
- ❖ Technology is widely used in conducting market research for understanding the special needs of the customer.
- ❖ Digital and social media are used as a platform for advertising and promoting the products/services.
- ❖ Data-mining and data analytics are used to know the customer better.

- ❖ Technology is used in managing inventory, storing goods in warehouses, in distributing goods and in receiving payment.
- ❖ This dynamic environment also includes the following ;
 - 1) The level of technology available within the country
 - 2) Rate of change in technology
 - 3) Technology adopted by competitors
 - 4) Technological obsolescence

IV. LONG ANSWER QUESTIONS:

1. Discuss the role of macro environment of business.



This is general or overall environment in which the business operates.

i) Economic Environment:

- ❖ The nature of economic system The economic systems can be classified as Capitalistic, Socialistic and Mixed economy.
- ❖ The economic policies of a nation Monetary policy, fiscal policy, Export-import policy, Industrial policy Trade policy, Foreign exchange policy etc are part of the economic environment.
- ❖ The Economic structure includes capital formation, investment pattern, composition of trade balance, occupational distribution of workforce, and the structure of national output.

ii) Socio-Cultural environment:

- ❖ Social environment refers to the sum total of factors of the society in which the business is located.
- ❖ It affects the business.

- ❖ It is dynamic and includes the behaviour of individuals, the role and importance of family, customs, traditions, beliefs and values.

iii) Political and Legal Environment:

- ❖ The success of a business lies in its ability to adapt and sustain to political and legal changes.
- ❖ The legislative, executive and judiciary are the three political institutions which directs and influences a business.

iv) Geo-Physical Environment:

- ❖ The natural, geographical and ecological factors have a bearing on the business.
- ❖ the weather and climatic conditions and availability of water and other natural resources is essential for the agricultural sector.
- ❖ Location of certain industries is influenced by the geographical conditions For E.g In Tamilnadu the concentration of cotton textile industry in Coimbatore is due to conducive weather conditions.

v) Technological Environment:

- ❖ Digital and social media are used as a platform for advertising and promoting the products/services.
- ❖ Data-mining and data analytics are used to know the customer better.
- ❖ Technology is used in managing inventory, storing goods in warehouses, in distributing goods and in receiving payment.

vi) Global Environment:

- ❖ With the rapid growth of technology the physical boundaries are fast disappearing and the new global marketing is emerging.
- ❖ The global environment has an impact on the tastes and preferences of the people.

2. Describe the economic and socio cultural environment of business.

i) Economic environment:

- 1) Many of the developed nations have successfully integrated the computer based technologies with their existing business.
- 2) Developing nations like India, China, Brazil Mexico are middle income economies are characterised by low to moderate industrial growth, the inequality in the distribution of

income, high population, a low standard of living and slow absorption of technology.

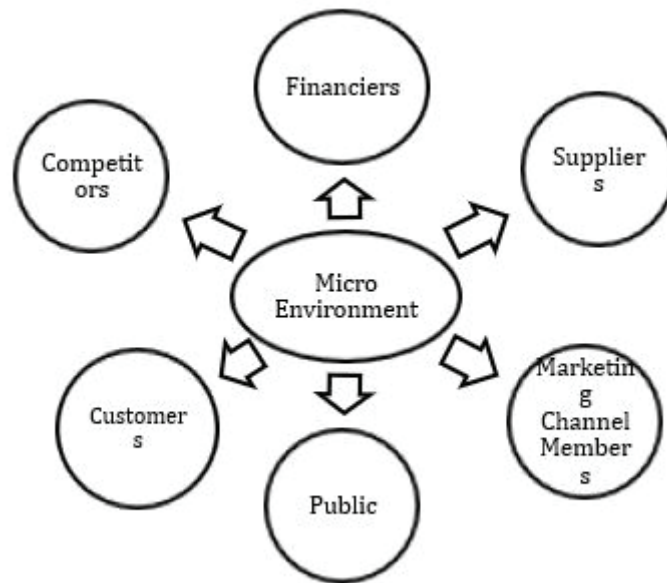
- 3) The economic systems can be classified as Capitalistic, Socialistic and Mixed economy. Capitalistic economy is a free enterprise market where individual ownership of wealth is predominant.
- 4) The economic policies of a nation Monetary policy, fiscal policy, Export-import policy, Industrial policy Trade policy, Foreign exchange policy etc are part of the economic environment.
- 5) The Economic indices like GDP, GNP national income, per-capita income, balance of payments, rate of savings and investments etc. form an important part of economic environment.
- 6) Development of financial market The organisation and development of money market, capital market securities market and, the banking system has a greater impact.
- 7) The Economic structure includes capital formation, investment pattern, composition of trade balance, occupational distribution of workforce, and the structure of national output.

ii) Socio-Cultural environment

- ❖ Business is a part of the society.
- ❖ Social environment refers to the sum total of factors of the society in which the business is located.
- ❖ Social and cultural environment of society affects the business.
- ❖ It is dynamic and includes the behaviour of individuals, the role and importance of family, customs, traditions, beliefs and values, religion and languages, the ethical values.
- ❖ The literacy level, and the social attitudes of the people of the society. The socio-cultural environment also includes the following;
 - 1) The social institutions and groups
 - 2) Family structure prevalent in the society
 - 3) Role of marriage as an institution
 - 4) Caste system in the society
 - 5) Customs, beliefs and values
 - 6) Demographic factors which includes the size, composition, literacy level, distribution and mobility of the population

7) The lifestyle of people and their tastes, likes and preferences.

3. Explain the micro environmental factors of business.



i) Suppliers:

- ❖ Timely procurement of materials from suppliers enables continuity in production and reduces the cost of maintaining stock/inventory.
- ❖ Organisations generally obtain supplies from a panel of suppliers instead of relying on a single source.
- ❖ Organisations have realised the importance of nurturing and maintaining good relationship with the suppliers.

ii) Customers:

- ❖ The aim of any business is to satisfy the needs of its customers.
- ❖ The customer is the king and the fulcrum around which the business revolves.
- ❖ Hence it is essential for any business to understand the needs of its varied customers like individuals, retailers, wholesalers, industries and government sector.
- ❖ Customer relationship management aims at creating and sustaining cordial relations with customers.

iii) Competitors:

- ❖ All organisations face competition at all levels local, national and global.
- ❖ Competitors may be for the same product or for similar products.

- ❖ It is important for a business to understand its competitors and modify their business strategies in the face of competition.

iv) Financiers:

- ❖ The financiers of a business which includes the debenture holders and financial institutions play a significant part in the running of a business.
- ❖ Their financial capability, policies strategies, attitude towards risk and ability to give financial assistance are all important to a business.

v) Marketing Channel members:

- ❖ The marketing inter-mediaries serve as a connecting link between the business and its customers.
- ❖ The middlemen like dealers, wholesalers and retailers ensure transfer of product to customers.
- ❖ physical distribution is facilitated by transporters, and warehouses help in storing goods.
- ❖ Market research agencies help the firm to understand the needs of the customers while advertising and services.
- ❖ Insurance firm is another marketing intermediary which provides coverage for risk in business.

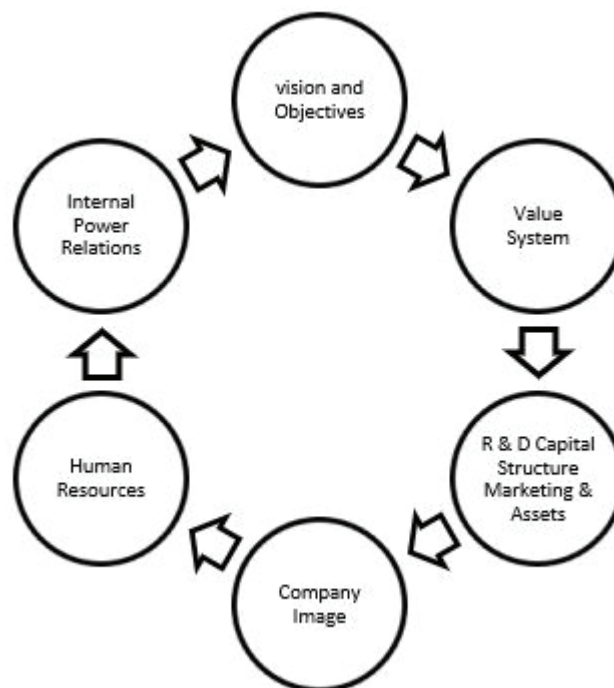
vi) Public

- ❖ This refers to any group like media group, citizen action group and local public which has an impact on the business.
- ❖ The public group has the ability to make or mar a business.
- ❖ Many companies had to face closure due to actions by local public.

4. Discuss the significance of understanding business environment and the internal factors affecting business.

The significance of understanding the business environment is as follows:

- i. Helps in formulating Strategy and future Planning
- ii. Enables to identify the opportunities available
- iii. It helps the firms to identify threats which may affect the business.
- iv. It stimulates systematic monitoring of environment which helps business in taking steps to cope with the rapid changes
- v. Environmental analysis helps a business to enhance its image by being sensitive and quickly responding to the changing environment and needs of people.



The major internal factors affecting business decisions are

i) Values system:

- ❖ The values of the founder/owner of the business, percolates down to the entire organisation and has a profound effect on the organisation.
- ❖ The success of an organisation depends upon the sharing of value system by all members.
- ❖ External business associates like suppliers and distributors consider the value system practised by an organisation with strong culture of ethical standards and values.

ii) Vision and objectives:

- ❖ The vision and objectives of a business guides its operations and strategic decisions.
- ❖ Example 'Amul the taste of India' Gujarat Co-operative Milk Marketing Federation GCMMF
- ❖ Vision: Liberate our farmers from economic oppression and lead them to prosperity.

iii) Management structure and ature:

- ❖ The structure of management/board and their style of functioning, the level of professionalism of management, the composition of the board are the various factors which affects the decision making.

- ❖ Since the board is the highest decision making authority, its composition, degree of professionalism and style of operations plays a very critical role in the growth and development in an organisation.

iv) Internal power relations:

- ❖ This refers to the internal power relations that exist in an organisation.
- ❖ The relations among board members, between board members and the CEO and the level of support enjoyed by the board from its' stakeholders namely employees and shareholders are significant factors which affects decision making and its implementation in an organisation.

v) Human resources :

- ❖ The success of an enterprise is solely dependent on its manpower.
- ❖ Therefore the quality, skill competency, right attitude and commitment of its human resources is essential for the success of an organisation.

v) Company image:

- ❖ The image of an organisation plays an important role in introducing new products, selecting agents and dealers for distribution, forging alliances with suppliers, expanding and entering new markets both domestic and international, raising finance etc.

ADDITIONAL QUESTIONS:

I. CHOOSE THE CORRECT ANSWERS:

- Economic environment refers to all forces which have _____ environment**
a) Political b) Natural
c) Economic d) Social
- _____ environment is beyond the control of the business.**
a) Internal b) External
c) Micro d) Macro
- Which is not included in national culture?**
a) Language b) Internet
c) Belief d) Attitude

- Corporate values are the _____ of the corporate sector.**

- a) Shared Values b) Moral Beliefs
c) Customer Satisfaction d) Goodwill

- What are the main concepts concerning about business goals or objectives?**

- a) Mission, Objectives
b) Mission, Targets
c) Mission, Objectives, Targets
d) None

- All forces which have an economic impact is known as _____.**

- a) Political Environment
b) Socio-Cultural Environment
c) Legal Environment
d) Economic Environment

- Match the following:**

Group A (Components of Business Environment)	Group B (Factors of Components)
a. Social Environment	1. Awareness of work ethics
b. Political Environment	2. Packaging
c. Economic Environment	3. Balance of Payment
d. Regulator Environment	4. MRTP

Codes:

	a	b	c	d
(A)	1	2	3	4
(B)	1	2	4	3
(C)	4	3	2	1
(D)	3	2	1	4

- Assertion (A): Operating style of the international business can be spread to the entire globe.**

Reason (R): The style is limited to the internal economy only.

Codes:

- (A) Both (A) and (R) are true.
(B) (A) is true, but (R) is false.
(C) (A) is false, but (R) is true.
(D) Both (A) and (R) are false.

9. Assertion (A): Business Economics is tool centric facilitating decision making in business.

Reason (R): It provides an analytical understanding of economic activities.

Codes:

- (A) Both (A) and (R) are not correct.
- (B) Both (A) and (R) are correct.
- (C) (A) is true, but (R) is false.
- (D) (R) is true, but (A) is false.

10. Assertion (A): Internal factors of business environment are controllable factors.

Reason (R): The Company can alter or modify such factors to suit the environment.

Codes:

- (A) Both (A) and (R) are correct.
- (B) (A) is correct, but (R) is incorrect.
- (C) Both (A) and (R) are incorrect.
- (D) (A) is incorrect.

11. Statement A: Micro environment is also called as Operating environment.

Statement B: Macro environment is also called as General environment

- (a) Statement A and statement B both are true
- (b) Statement A is true but statement B is not true
- (c) Statement A is true but statement B is the reason of statement A
- (d) Statement A and B are true, but statement B is not the reason of statement A

12. Assertion(A): Internal environment is within the control of the business.

Reason(R): Internal factors affecting a business environment are referred to controllable factors.

- (A) Both (A) and (R) are not correct.
- (B) Both (A) and (R) are correct.
- (C) (A) is true, but (R) is false.
- (D) (R) is true, but (A) is false.

13. Assertion (A): Economic integration abolishes cross-national economic discrimination.

Reason (R): Geographical proximity is an important reason for economic integration.

Codes:

- (A) (R) does explain (A).

- (B) Both (A) and (R) are correct.
- (C) Both (A) and (R) are not correct.
- (D) (A) is correct, but (R) is not correct.

14. Assertion (A): A futures contract specifies in advance the exchange rate to be used, but it is not as flexible as a forward contract.

Reason (R): A futures contract is for specific currency amount and a specific maturity date.

Codes:

- (A) (R) is a correct explanation of (A).
- (B) (R) is not a correct explanation of (A).
- (C) (A) and (R) are not related with each other.
- (D) (R) is irrelevant for (A).

15. Assertion (A): The Indian economy could survive in the recent global recession due to its strong banking system.

Reason (R): The Indian economy contains a large amount of black money.

Codes:

- (A) Both (A) and (R) are correct and (R) is the explanation of (A).
- (B) Both (A) and (R) are correct, but (R) is not the correct explanation of (A).
- (C) (R) is correct, but (A) is not the appropriate assertion of (R).
- (D) Both (A) and (R) are incorrect.

ANSWERS									
1	c	2	b	3	b	4	b	5	c
6	d	7	a	8	b	9	b	10	a
11	d	12	b	13	b	14	a	15	b

IV. LONG ANSWER QUESTIONS:

1. What are the major element of legal and political environment?

- ❖ Political stability is reflected by the following parameters like the election system, the law and order situation, the role and structure of Military and Police force, the declaration of President's rule, civil war etc
- ❖ Political organization refers to the ideology and philosophy of the political parties, the

government, the role and degree of authority of bureaucracy, the level of political consciousness among citizens and the funding of political parties by business houses and the clout wielded by them.

- ❖ The image of the leader and the country in the inter-national arena.
- ❖ Legal framework of business and their degree of flexibility.
- ❖ The constitution of the nation.
- ❖ The Foreign policy of the country with

2. What are the natural, geographical and ecological factors have a bearing on the business?

- ❖ The availability of natural resources like minerals oil .etc, since setting up of industries requires availability of raw materials
- ❖ The weather and climatic conditions and availability of water and other natural resources is essential for the agricultural sector .
- ❖ Topographical factors like the terrain impacts type of business since the demand and consumption pattern may vary in these regions. E.g in the the hilly region mode of transport will have to be modified to tackle the terrain..
- ❖ Ecological factors are now gaining momentum, since the governments across the globe are framing stringent policies for ecological conservation and prevention of pollution. The ban on use of plastic bags imposed by the Ooty Corporation is an example.
- ❖ Location of certain industries is influenced by the geographical conditions For e.g In Tamilnadu the concentration of cotton textile industry in Coimbatore is due to conducive weather conditions. .
- ❖ Availability of natural harbours and port facilities for transporting goods

3. Write short notes on Technological environment

- ❖ The development in the IT and telecommunications has created a global market.
- ❖ Technology is widely used in conducting market research for understanding the special needs of the customer.

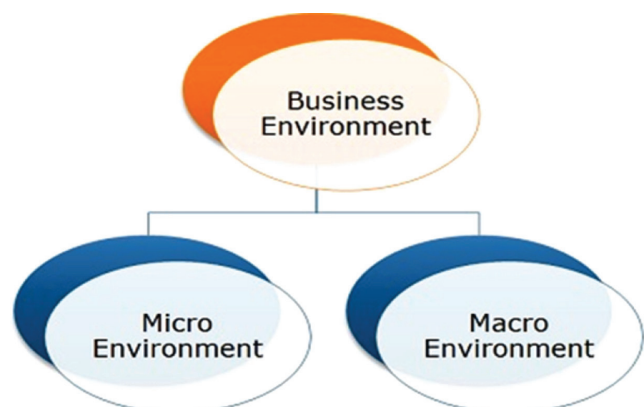
- ❖ Digital and social media are used as a platform for advertising and promoting the products/ services.
- ❖ Data-mining and data analytics are used to know the customer better. Technology is used in managing inventory, storing goods in warehouses, in distributing goods and in receiving payment.
- ❖ This dynamic environment also includes the following ;
 - 1) The level of technology available with in the country
 - 2) Rate of change in technology
 - 3) Technology adopted by competitors
 - 4) Technological obsolescence

4. Write short notes on Global environment

With the rapid growth of technology the physical boundaries are fast disappearing and the new global market is emerging. The international environmental factors which affects a business are as follows;

- ❖ Differences in language and culture
- ❖ Differences in currencies
- ❖ Differences in norms and practices
- ❖ Differences in tastes and preferences of people
- ❖ The tax structure relating to import and export.
- ❖ Differences in the degree of adoption of technology.

5. What are the difference between Micro and Macro Environment



Every business organization is a part of the business environment, within which it operates. No entity can function in isolation because there are many factors that closely or distantly surrounds the business, which is known as a business

environment. It is broadly classified into two categories, i.e. micro environment, and macro environment. The former affects the working of a particular business only, to which they relate to, while the latter affects the functioning of all the business entities, operating in the economy.

Definition of Micro Environment

Microenvironment refers to the environment which is in direct contact with the business organization and can affect the routine activities of business straight away. It is associated with a small area in which the firm functions.

Microenvironment is a collection of all the forces that are close to the firm. These forces are very particular for the said business only. They can influence the performance and day to day

operations of the company, but for a short term only. Its elements include suppliers, competitors, marketing intermediaries, customers and the firm itself.

Definition of Macro Environment

The general environment within the economy that influences the working, performance, decision making and strategy of all business groups at the same time is known as Macro Environment. It is dynamic in nature. Therefore it keeps on changing. It constitutes those outside forces that are not under the control of the firm but have a powerful impact on the firm's functioning. It consists of individuals, groups, organizations, agencies and others with which the firm deals during the course of its business.

BASIS FOR COMPARISON	MICRO ENVIRONMENT	MACRO ENVIRONMENT
Meaning	Micro environment is defined as the nearby environment, under which the firm operates.	Macro environment refers to the general environment, that can affect the working of all business enterprises.
Elements	COSMIC, i.e. Competitors, Organization itself, Suppliers, Market, Intermediaries and Customers.	PESTLE, i.e. Population & Demographic, Economic, Socio-Cultural, Technological, Legal & Political and Environmental.
Nature of elements	Specific	General
Are these factors controllable?	Yes	No
Influence	Directly and Regularly	Indirectly and Distantly