

# 2

## BUSINESS SYSTEM

### Learning Outcomes

*After studying this chapter, you should be able to:*

- explain the concept of business system and its characteristics;
- discuss the business and environment interface;
- explain various sub-systems of business and interaction between them;
- understand challenges in integration of sub-systems of a business; and
- understand techniques of integration of sub-systems of a business.

Business is an essential part of the modern world. It refers to an economic activity that is concerned with the production and distribution of goods and services for satisfying human wants.

According to Dicksee, “*Business refers to a form of activity conducted with an objective of earning profits for the benefit of those on whose behalf the activity is conducted.*”

Lewis Henry defined business as “*Human activity directed towards producing or acquiring wealth through buying and selling of goods and services.*”

Business is, thus, an economic activity involving regular production and distribution of goods, services or ideas with the aim of profit generation by providing utility to all stakeholders.

### 2.1 BUSINESS SYSTEM: CONCEPT AND FEATURES

A system is a set of interacting and interdependent elements or parts forming a complex and integrated whole. These elements or parts of a system are called as sub-systems. These sub-systems have different identities and own individual functions but they all work in relation to each other for a common goal.

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Every system works within an environment. Based on interaction with environment, systems can be divided into two broad categories - open system and closed system. An open system is one which interacts with the environment. Closed system, on the other hand, is unaffected by the environment, for instance human beings are considered open systems while a car is a closed system.

### Box 2.1 : Understand a System through this Analogy

You must have heard that your body is a system, now try to understand how it works:

1. Your body is one system with various sub-systems such as reproductive system, digestive system, respiratory system and so on.
2. All the sub-systems have their own working different from other sub-systems yet these systems are dependent on each other. If one system fails the other starts to show problems as well.
3. The working of all the sub-systems is controlled by one organ that is brain.
4. As a system, your body has two sides - internal and external. It can affect and can get affected by factors in external environment.
5. It contributes towards the entire ecological system in one way or the other through its output.
6. If the body is internally weak, it gets more exposed to external threats such as flu.
7. The body system is adaptive according to different weathers.

Based on the analogy given above, a business as a system can be defined as:

- (a) **A composite whole of various sub-systems:** Business sub-systems include its various departments (marketing, finance, production), its process (weaving, dyeing, supply chain), and its markets (north division, south division). All these subsystems are divided based on their specialization but their working is coordinated with each other in the direction of business goals. Although each sub-system has its own set of operations but these operations are interrelated with each other. The quality of working of one sub-system depends upon the efficiency of other sub-systems. The working of all the sub-systems is coordinated and controlled at one place, i.e., the source of origin of authority. In certain organisations, these points of control are evenly distributed at various levels in the organisation called decentralization whereas in certain cases the authority is kept at one central point only called as centralization.
- (b) **An open system:** Business as an open system has two faces - internal and external. Internal environment includes events that occur within an organisation and are easier to control. The external environment includes events that take place outside the business and are difficult to control, namely, social and cultural, economic, technological, political-legal, competition, etc. The business system derives its inputs from the external environment and supplies its output to the environment.
- (c) **Dynamic and adaptive:** A business needs to be pro-active and responsive to the changes taking place in the external environment. External environment brings both opportunities and threats for a business. If a business is ignorant about these changes, it may lead to its failure. The threats presented by the external environment can be fought if the business is internally strong. The internal strength of a business lies in its structure, its commitment towards its goals, its adaptability, human resources, its goodwill, and its agility.

(d) **A sub-system.** A business as sub-system is a part of bigger system such as industry, nation, region, continents, world and globe. It contributes both positively and negatively towards the bigger system. As a profit making and innovation seeking entity, it creates various utilities for its customers and contributes towards the development of a nation. It may also impose burdens on society and earth by acting irresponsibly towards the environment and resources.

*Thus, business can be defined as an open, dynamic and adaptive sub-system that operates in an environment with its various sub-systems that are inter-dependent and interrelated to each other working towards achievement of common goal, i.e., profit earning. The figure below gives a glimpse of business as a system.*

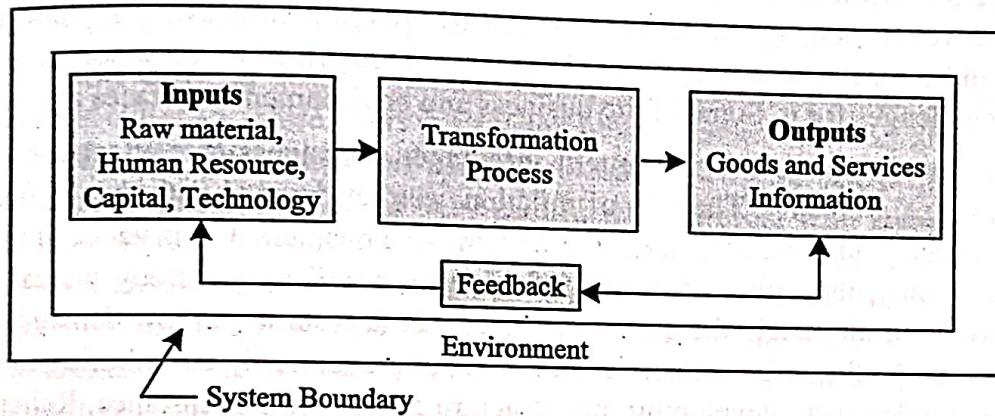


Fig. 2.1: Business as an Open System

## Characteristics of Business System

Some important characteristics of business system are as follows:

- Based on objectives:** A business system strives to work towards the achievement of specified objectives. For instance, maintaining profitability, employment generation, growth and survival, increasing return on investment, improvement in market share and development of human resources. The objectives of business give meaning to the existence of business system.
- Creativity:** Business system is creative in the sense that it takes the inputs from the environment and transforms them into outputs of goods and services.
- Dynamic:** Business system is a complex and dynamic system. It influences and is in turn influenced by the constant changes in the environment. The business system responds to the changes taking place in the environment.
- Feedback:** It is the information or response which is fed back to the system. Feedback serves as a control mechanism. The business can take corrective measures and respond to the changing environment on the basis of this information.
- Synergy:** Synergy implies that the whole is greater than the sum of the parts of the business system. When different sub-systems co-ordinate and interact with each other, they become more useful and productive. Business as a system brings together various sub-systems to generate synergies.

- (f) **Boundaries:** Boundaries are the limits within which the business system operates. They separate the business system from the other systems and its environment. A closed system has a fixed boundary, whereas open system has flexible boundaries as they interact with other systems and environment.

## 2.2 BUSINESS AND ENVIRONMENT INTERFACE

A business continually interacts with its environment. There is a constant 'give and take' between various elements of the business environment. Business obtains various inputs in the form of various resources (natural and artificial) from this environment and in return it offers output in the form of goods and services. This relationship between business and its environment is called Environment Interface. This interface can be cordial or may turn hostile. It sometimes brings lot of opportunities for business and sometimes challenges for it. Some of the business and environment interfaces are listed here:

- (a) **Business and economic environment interface:** A business gets affected by the economic conditions of a country. The rate of inflation, market demand and supply, financial interest rates, market conditions, etc., affect the working of a business. For instance, if there is inflation in an economy, the prices of supplies for business will rise; thereby increasing its cost of operations and ultimately the price of its final output resulting in low demand. A business on the other hand affects the economic conditions of a country by contributing towards its GDP, creating employment, developing infrastructure and so on. For instance, Reliance Industries, Tata Group are top contributors in India's GDP.
- (b) **Business and demographic environment interface:** A business gets affected by demographics of a country's population such as age, sex ratio, tastes and preferences, lifestyle, women empowerment, occupation and so on. India as a market is witnessing changes in its lifestyle. People are more concerned about their health today and carefully choose the products they consume. For instance, the launch of Maggie's Atta, Oats, and Spinach noodles are a response to this changing demography of India. A business is capable of bringing the changes in demography too. Through its products, advertisements and awareness programs; a business develops habits, sets new trends and brings lifestyle changes in population. Social media like Facebook and Twitter have developed new social habits of people. They have substituted the physical bonds of friendships with virtual bonds.
- (c) **Business and political environment interface:** The system of governance of a country has an immense influence on working of a business. The government in power, its ideology, policy making, international relations, and political stability affect the working of a business. For example, YouTube is banned in China due to its communist government. The Chinese government does not allow any threat against its political ideology of communism and that promotes democratic ideas in people.

Business not only gets affected by but also affects the political system of a country. Big businesses are a major source of funding for political parties in the forms of donations. Some companies such as Apple, Google, and Walmart are so large that their revenue outruns GDP of some countries. Coca-Cola's revenue was greater than Bolivia's GDP in 2017. This magnitude provides businesses control over the political power of a country. So much so that the origins of British rule in India was through the East India Company only.

- (d) **Business and natural environment interface:** There is ongoing debate about the interface between business and natural environment. There are rising concerns about their coexistence. In their greed to earn profits and satisfy customers, businesses have led to increased levels of pollution, depletion of green areas and exploitation of natural resources. There is an imbalance in this interface, i.e., businesses are extracting much more out of the natural environment than paying it back. It is high time that businesses should understand their responsibility towards the environment. They should invest in pollution control, make arrangements for waste disposal, produce environment friendly products, and adopt energy conservation techniques. For instance, companies such as Disney have zero net direct greenhouse emission policies, Starbucks is growing and using the organic coffee beans from its farms, Syska LED energy saving devices are taking responsibility towards the environment.
- (e) **Business and cultural environment interface:** Another complicated interface is between business and culture. Culture refers to attitudes, beliefs, values and ethics shared by the group of people in a nation. These factors are deeply embedded in a society and people are very sensitive about them. A business has to be very careful while dealing with them. A business should respect the cultural sentiments of people from product design to promotion and distribution. Ethics is one area of culture that is difficult to decode for businesses because what is accepted in one culture may not be acceptable in another. However, businesses have the power to build new cultures as well. Developing countries usually complain about the influence of the west on their daily lives. This culture has been brought and transferred by multinational corporations. In fact, people are welcoming and sensitive towards people of other cultures today due to the presence of multinational corporations.

*"The McDonaldization of Society"-A book by George Ritzer in 1993 has explained how the culture of McDonalds has changed the lives of people. As a fast food restaurant, it has fast paced lives of people where convenience and affordability is everything. It has standardized the lives of people with its standard queue system and standard products.*

- (f) **Business and technological environment interface:** Technology refers to know-how, i.e., the methods or techniques of doing something or the key to unlock a process. It is the set of processes in an organisation that transforms raw material of resources into finished goods and services. A development in technology reduces the costs of business operations and increases profitability. Technology is a source of competitive advantage for a business today. Businesses today are innovating and making life easy for people like never before. Innovation in packaging made pizza delivery possible (Dominos); innovation in information technology made communications possible (Microsoft, Google) and innovation in digital technology made e-commerce possible (Amazon). The interface between technology and business has positive outcomes.

## 2.3 SUB-SYSTEMS OF A BUSINESS SYSTEM

According to Beyond O. Wheeler, "The business system is a combination of all resources, organisations and institutions which are directly or indirectly related to the production and distribution of goods and services for the satisfaction of human needs."

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Thus, all the activities undertaken to produce and distribute goods and services are referred to as business system. The system has following sub-systems:

- (a) **Production system:** It involves production of goods and services, i.e., production planning and control, material handling, quality control, purchase of raw material, etc.

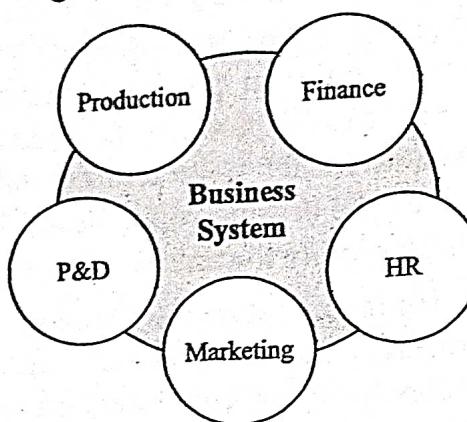


Fig. 2.2: Sub Systems of a Business System

- (b) **Finance system:** It involves dealing with funds required for the business, i.e., estimating the funds required, selecting the sources of finance, investments, distribution of profits, etc., are the sub systems of finance function.
- (c) **Human resource system:** This system performs functions related to the human resources, i.e., estimating the manpower requirement, procurement, selection, training and development, compensation, etc.
- (d) **Marketing system:** It performs the jobs related to marketing of goods, i.e., production, pricing, promotion, distribution, marketing research, etc.
- (e) **Research and development system:** Research and development is an important tool for the growth of business. It includes knowing customer needs, developing new and improved products, discovery of efficient processes, technology, etc. Research and development can lead to innovations in the business system.

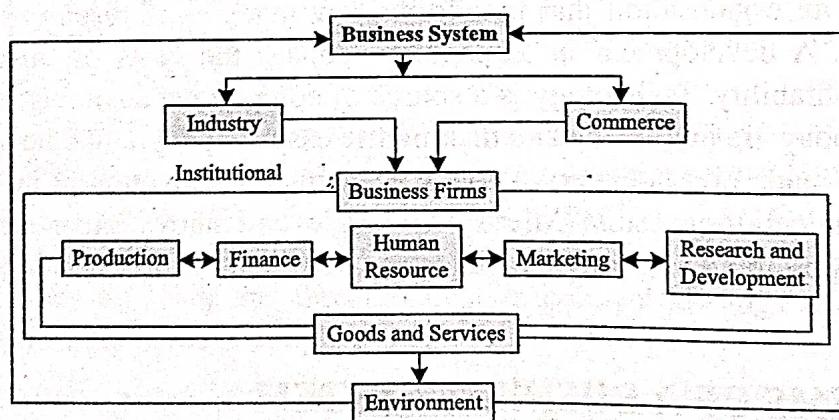


Fig. 2.3: Sub-systems of Business System

These departments are inter-related and inter-dependent. For instance, if management wants to introduce new technology for increasing production, it will affect other sub-systems. The finance department must be ready to finance the investment in the new technology. The increased production

will also affect the marketing function. The marketing department will, in turn, affect the production by communicating it about the needs and preferences of the customers. The marketing and finance department will influence the activities of production department. Thus, there is a continuous interaction between the various sub-systems of a business system.

If a business has to run smoothly and efficiently, it needs to manage this integration of various sub-systems. However, there are lots of complexities involved in integration of these sub-systems. They are discussed in detail in next section.

### 2.3.1 PROBLEMS IN INTEGRATION

The various sub-systems continuously interact with each other making it indispensable to create coordination or integration among the various sub-systems. There are a variety of problems in the way of development of an effective integration among these sub-systems of a business organisation. These problems are listed as follows:

- Individual goals:** Each and every sub-system runs with its own set of objectives and these objectives vary among every sub-system. When a sub-system works selfishly for achievement of individual objectives, ignoring overall growth and common goals, it creates problems for business. A successful individual department does not lead to a successful business.
- Conflict between system heads:** Each sub-system works under the guidance of a leader. These leaders may have different styles and orientations of working. When one style conflicts with other, it creates unnecessary stress and complexities thereby destroying the internal working environment of a business.
- Lack of communication and coordination:** For all sub-systems to work in coordination with each other there has to be smooth flow of communication. In the absence of proper infrastructure and lack of communication, various systems cannot integrate with each other.
- Environmental uncertainty:** A business operates in an uncertain environment. External environment involves factors that are beyond the control of a business and may create hurdles for it. Sometimes these hurdles are big enough to shake the internal working of a business. Operating in a turbulent business environment makes integration of sub-systems difficult as they continuously need to change and adapt to new environment which involves friction and resistance.
- No central point of control:** Decentralized business models have led to creation of business sub-systems with distributed authority and responsibilities. However, a lack of central point of control creates problem of integration of these sub-systems.

### 2.3.2 TECHNIQUES OF INTEGRATION

The presence of proper integration and coordination between various interacting sub-systems is vital for business organisations' growth and development. To bring integration and coordination the managers may use following types of techniques:

- Goal congruity:** The aims and objectives of every sub-system should be effectively balanced. The objectives of individuals should be correlated with those of business organisation. The organisational objectives should be placed over individual goals. The overall work and

- functioning of the business system and individual sub-system should be reviewed in the context of overall objectives of the business organisation.
- (b) **Culture of acceptance:** The employees specialized in particular field of operation should be motivated to accept and understand the views of other employees in a respectable manner. Leaders of various departments should be trained mentally and behaviorally towards a culture of acceptance.
- (c) **Communication:** An organisation should build clear lines of communication supported with right technology and infrastructure. In the everyday work routine the interdependency of every sub-system should be communicated to all sub-systems in an appropriate manner. A two-way communication among various sub-systems of a business system should be there. It should be open and reliable to create mutual co-operation and understanding among the employees in different departments.
- (d) **Principle of equity:** Each and every sub-system should be given equal recognition and importance. Fair and just treatment to all employees and departments in an organisation directs the energies of employees towards common goals rather than individual goals.
- (e) **Developing flexible business model:** External threats disturb the integrative equilibrium between various sub-systems but a flexible business model always brings back the equilibrium between them. In order to withstand external environment threats, a business should develop its resilience. It should create an organisation structure that is adaptive and adjustable to changes in the outside world.
- (f) **Automation:** In order to integrate various sub-systems, a business should minimize the role of negative human factors such as subjectivity, politics, conflicts, judgments, etc., in business process. Automation can help a business in doing this. Latest softwares such as Enterprise Resource Planning (ERP), artificial intelligence, and machine learning are substituting the human factors with machine rationale for better. Hence, creating an ease in integration for business sub-systems.

### REVIEW QUESTIONS

1. Explain the concept of business as a system. Discuss in detail its characteristics as a system.
2. Explain various sub-systems of business and their relevance for a business.
3. "Sub-systems are interrelated and interdependent on each other". Do you agree with the statement? In the light of this statement explain concept of integration of sub-systems and the challenges that come on way of their integration.
4. What is business environment interface? Explain in detail how business have relationship of give and take with its various systems.