UNIT-2
BUSINESS ENVIRONMENT

TOPICS TO BE COVERED:

- Concept & Meaning of Business Environment
- Types of Environment
- Internal Environment
- External Environment
- Competitive Structure of Industries
- Corporate Social Responsibility
- Corporate Governance
- Managerial Values & Ethics

MEANING OF BUSINESS ENVIRONMENT

- The term 'business environment' literally means external forces, factors and institutions that are beyond the control of the business, and they affect the functioning of a business enterprise.
- These include customers, competitors, suppliers, government, and the social, political, legal and technological factors, etc.
- While some of these factors or forces may have direct influence over the business firm, others may impact it indirectly.
- Thus, the business environment may be defined as the total surroundings which have a direct or indirect bearing on the functioning of business.
- It may also be defined as the set of external factors, such as economic factors, social factors, political and legal factors, demographic factors, technical factors, etc., which are uncontrollable in nature and affect the business decisions of a firm.

DEFINITION BY DIFFERENT THEORISTS

1. Business Environment has been defined by **Bayard O**. **Wheeler** as "the total of all things external to firms and industries which affect their organization and operation".

2. According to **Arthur M. Weimer**, business environment encompasses the 'climate' or set of conditions, economic, social, political or institutional in which business operations are conducted.

3. According to **Glueck and Jauch**, "The environment includes factors outside the firm which can lead to opportunities for or threats to the firm. Although there are many factors, the most important of the sectors are socio-economic, technological, supplier, competitors, and government."

FEATURES OF BUSINESS ENVIRONMENT

- A business firm is an **open system**.
- **Sum total of all factors**: Business environment is the sum total of all factors external to the business firm and that greatly influences their functioning.
- **Micro and Macro factors**: It covers micro or specific factors that affect business directly such as investors, competitors, customers. Macro or general factors include social, political, cultural, legal, government and technological aspects.
- **Inter-relatedness**: All the micro and macro factors are inter-dependent and inter-related to one another.
- **Dynamic**: The business environment is dynamic in nature, that means, it keeps on changing.
- **Uncertainty**: The changes in business environment are unpredictable. It is very difficult to predict the exact nature of future happenings and the changes in economic and social environment.
- **Complex**: Business Environment differs from place to place, region to region and country to country. Political conditions in India differ from those in Pakistan. Taste and values cherished by people in India and China vary considerably.

IMPORTANCE OF BUSINESS ENVIRONMENT

There is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively.

(i) First Mover Advantage: Early identification of opportunities helps an enterprise to be the first to exploit them instead of losing them to competitors.

For example, Maruti Udyog became the leader in the small car market because it was the first to recognize the need of small cars in India.

(ii) Identification of Threats: Identification of possible threats helps in taking corrective and improving measures to survive the competition.

For instance; if an Indian firm finds that a foreign multinational is entering the Indian market, it can meet the threat by adopting measures like, by improving the quality of the product, reducing cost of the production, engaging in aggressive advertising, and so on.

(iii) Coping with Rapid Changes: All types of enterprises are facing increasingly dynamic environment. In order to effectively cope with these significant changes, firms must understand and examine the environment and develop suitable course of action.

IMPORTANCE OF BUSINESS ENVIRONMENT (Cont.)

(iv) Improving Performance: The enterprises that continuously monitor their environment and adopt suitable business practices are the ones which not only improve their present performance but also continue to succeed in the market for a longer period.

(v) Giving Direction for Growth: The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.

(vi) Meeting Competition: It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly in order to cope with the rapidly increasing competition.

(vii) Image Building: Environmental understanding helps the business organisations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power and saving to loss of energy in transmission.

(viii) Continuous Learning: Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.

TYPES OF BUSINESS ENVIRONMENT

The environmental factors may be classified in to different types or levels. As indicated below, there are, broadly, two types of environment, the internal environment, i.e., factors internal to the firm and external environment, i.e., factors external to the firm which have relevance to it.

The **internal factors** are generally regarded as controllable factors because the company has control over these factors; it can alter or modify such factors as its personnel, physical facilities, organization and functional means, such as marketing mix, to suit the environment.

The **external factors**, on the other hand, are, by and large, beyond the control of a company. The external or environmental factors such as the economic "factors, sociocultural factors, government and legal factors, demographic factors, geo-physical factors etc; are, therefore, generally regarded as uncontrollable factors

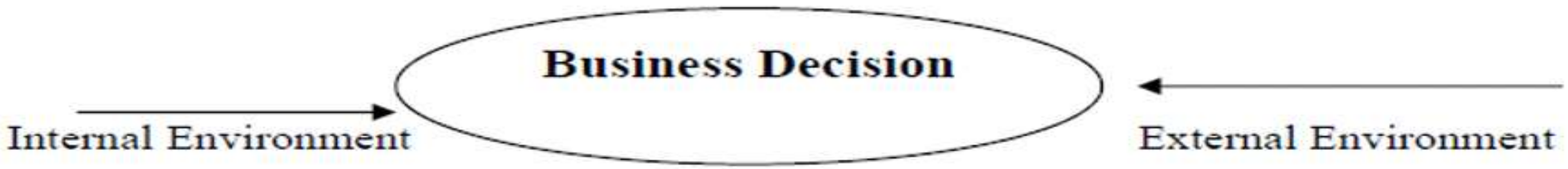
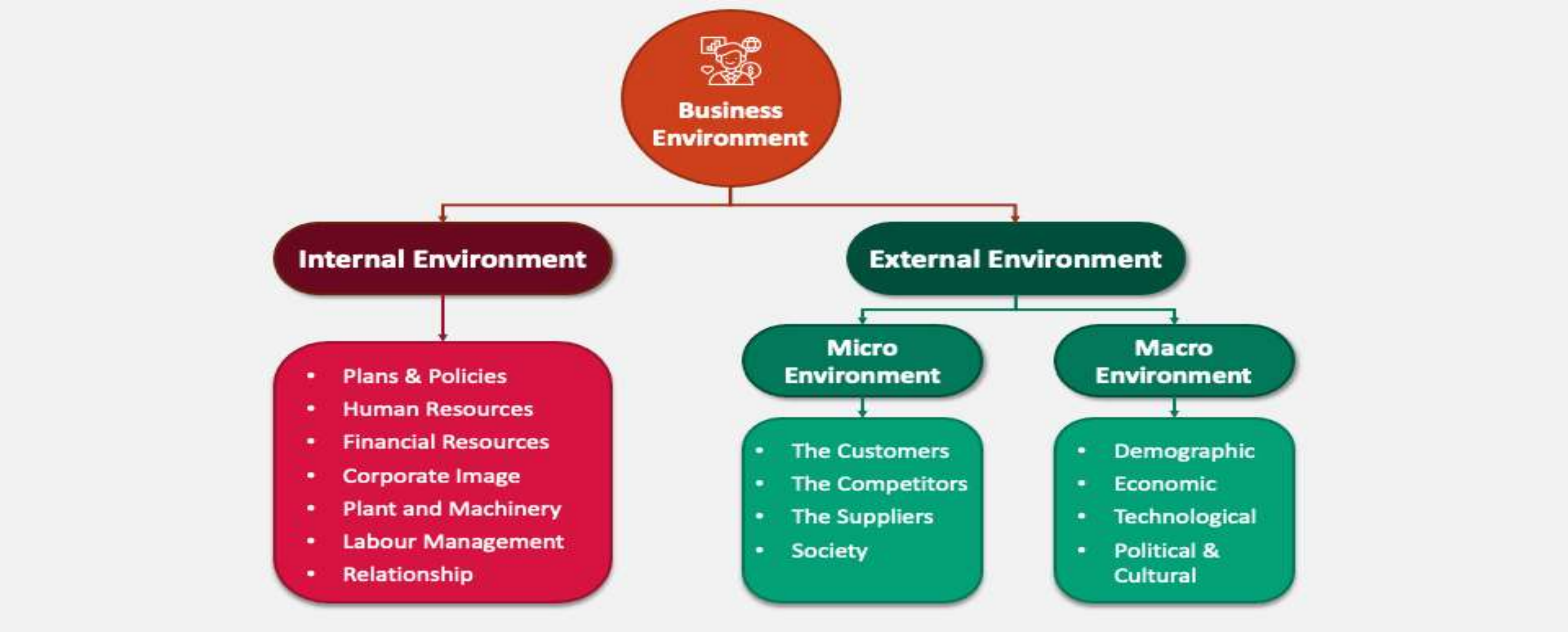


Fig 1.1 Factors Influencing Business Decision

TYPES OF BUSINESS ENVIRONMENT



INTERNAL ENVIRONMENT

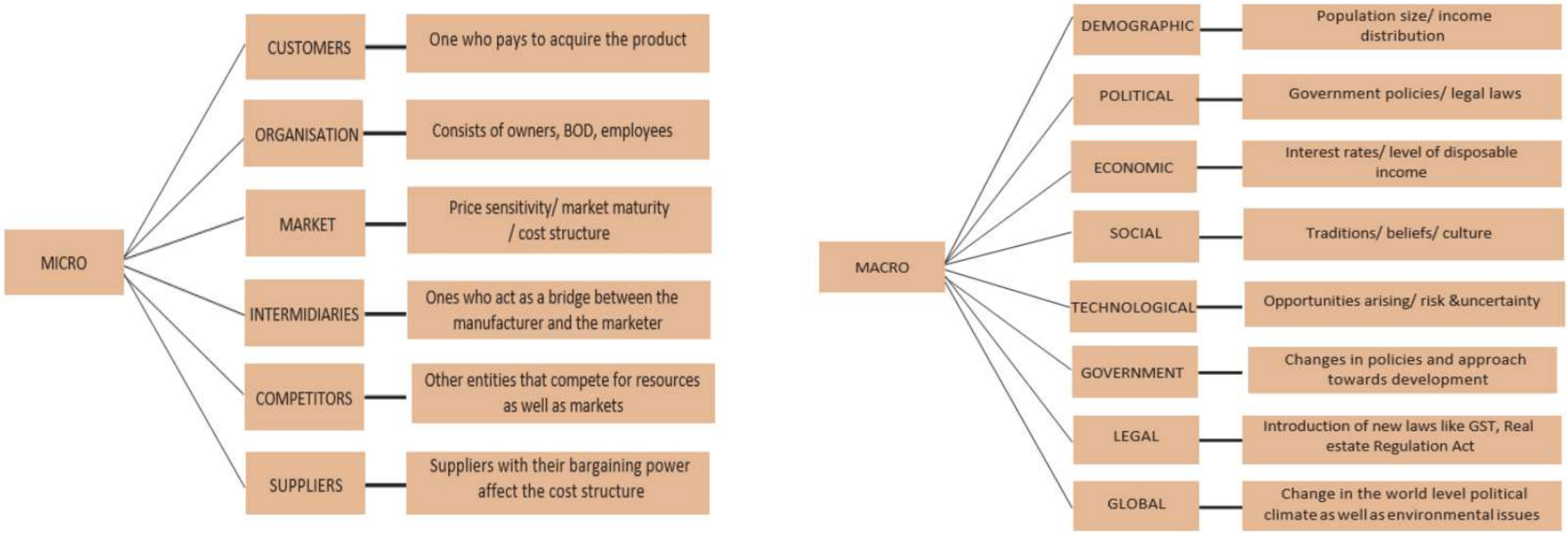
Values system: the values of the founder/ owner of the business , percolates down to the entire organisation and has a profound effect on the organisation. The success of an organisation depends upon the sharing of value system by all members.

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.

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.

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.

EXTERNAL ENVIRONMENT



MICRO FACTORS

Customers and Consumers

Customers are those people who buy or avail an organization’s products/services. In simple words, an organization cannot survive without customers.

Competitors

Every business has competition. Competitors are other or similar organizations that compete with each other for both resources and markets. It is therefore important for an organization to be aware of its competitors and analyze the threats from its competition.

Organization

It is important that to have a better understanding of the microenvironment of an organization, the organization must do a self-analysis. It must understand its own strengths and weaknesses, objectives and goals of the business, and resource availability.

Market

The market is much more and much bigger than the sum of all the customers. Businesses must study the market in terms of its actual size, the potential for growth, and its attractiveness. Some important issues that need to be considered are as follows The cost structure of the market

- Price Sensitivity of the market
- Technological structure of the market
- The existing distribution system of the market

MICRO FACTORS

Suppliers

Suppliers are an important component of the microenvironment of any business or organization. Organizations depend on more than one supplier for equipment, raw material, etc., to maintain and run their production.

Suppliers can influence the cost structure of the industry and are hence a major force.

Marketing Intermediaries

Marketing intermediaries are also a major determining force in business. Most customers are unaware of the manufacturer of the products they buy since they approach retailers, departmental store, chain stores or online stores for their purchases.

MACRO FACTORS

Economic factors

Inflation rates: High inflation can increase costs for businesses, affecting profitability.

Interest rates: Changes in interest rates can impact a business's borrowing costs and consumer spending.

Economic growth: A growing economy can provide opportunities for expansion, while a recession can pose challenges.

Political factors

Government policies: Policies related to taxation, trade, and industry can affect business operations and profitability.

Political stability: Stable political environments are conducive to business growth, while instability can deter investment.

International relations: Diplomatic relationships between countries can influence trade opportunities and regulations

MACRO FACTORS (contd.)

Social factors

Demographic changes: Shifts in population size, age, and composition can affect market demand and labour availability.

Cultural trends: Changing cultural norms and values can influence consumer preferences and behaviours.

Consumer behaviour: Understanding consumer attitudes and behaviours helps businesses tailor their products and marketing strategies.

Technological factors

Technological advancements: Innovations can lead to new products, services, and improved business processes.

Adoption of technology: The rate at which consumers and businesses adopt new technologies can impact market dynamics.

Research and development: Investment in R&D can drive innovation and competitive advantage.

MACRO FACTORS

Environmental factors

Sustainability: Increasing focus on sustainable practices affects business operations and consumer preferences.

Climate change: Businesses must adapt to changing environmental conditions and regulations.

Environmental regulations: Compliance with environmental laws can affect costs and operational practices.

Legal factors

Employment laws: Regulations related to labour practices, wages, and working conditions impact business operations.

Health and safety: Compliance with health and safety standards is essential for protecting employees and avoiding legal issues.

Competition laws: Regulations designed to promote fair competition can affect market dynamics and business strategies

ANALYSIS OF BUSINESS ENVIRONMENT

A SWOT analysis is a realistic, fact-based, data-driven review of an organization. It helps define a company's competitive position, assesses internal and external issues, and evaluates its current and future potential.

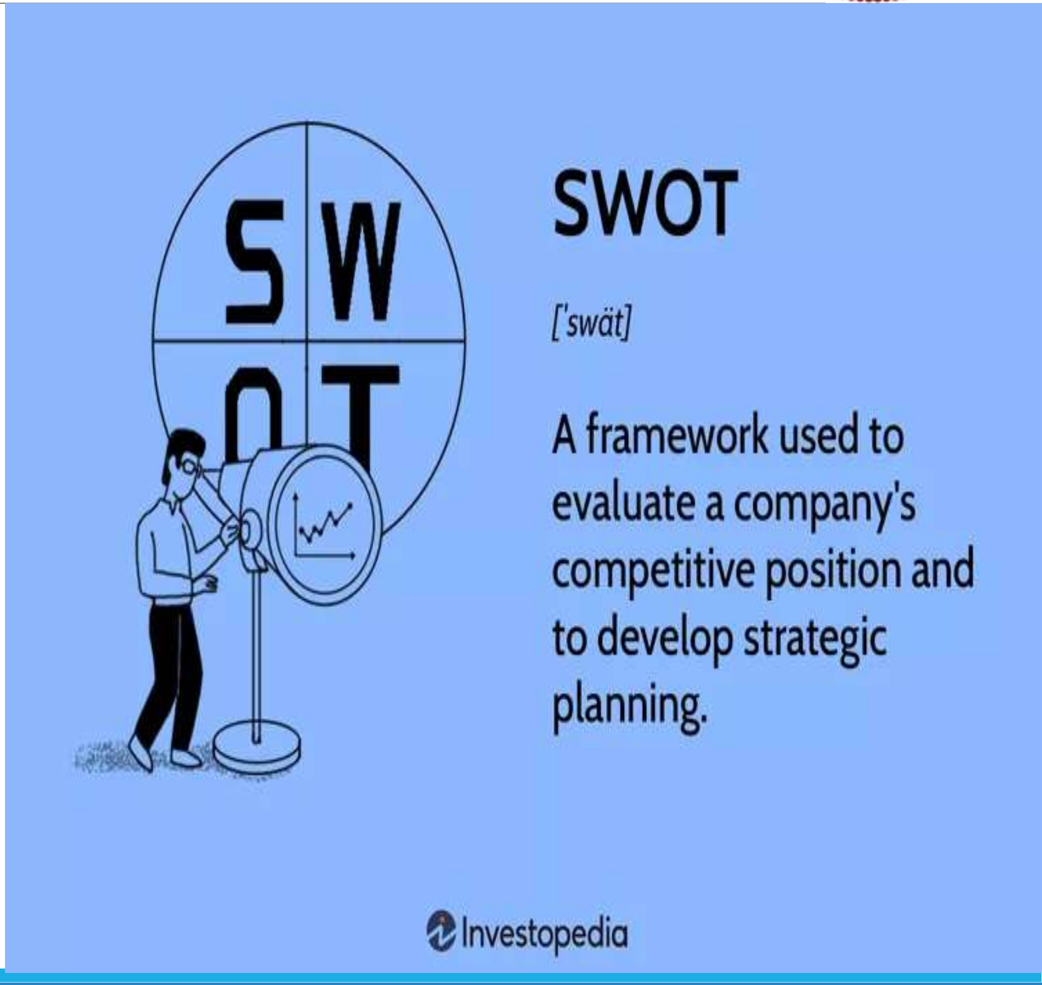
Every SWOT analysis includes four categories.

Strengths: Strengths describe what an organization excels at and what separates it from the competition: a strong brand, loyal customer base, a strong balance sheet, unique technology, and so on.

Weaknesses: Weaknesses stop an organization from performing at its optimum level. These are areas where the business needs to improve to remain competitive: a weak brand, higher-than-average turnover, high levels of debt, an inadequate supply chain, or lack of capital.

Opportunities: Opportunities are favorable external factors that could give an organization a competitive advantage.

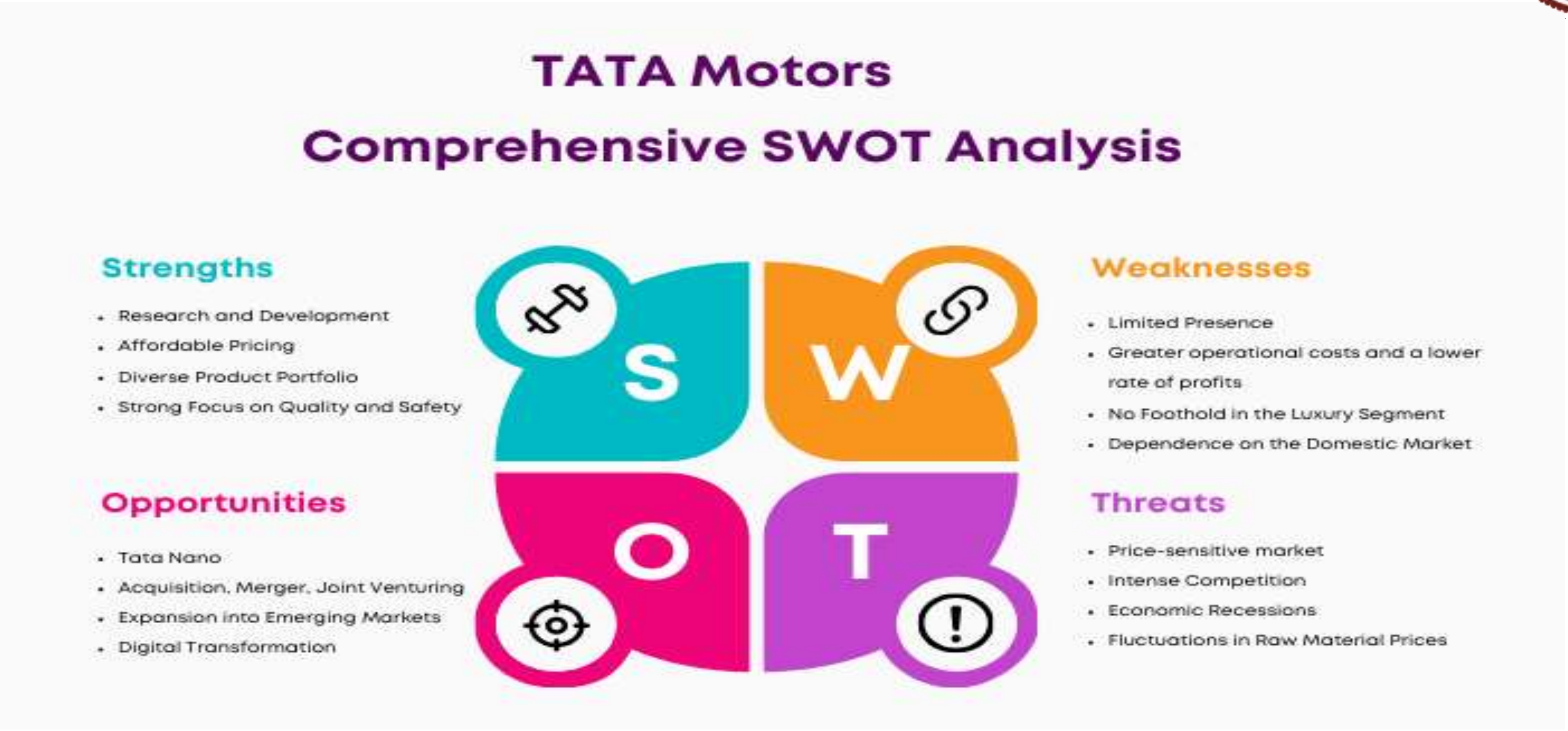
Threats: Threats refer to factors that can potentially harm an organization.



SWOT ANALYSIS

SWOT Questions Example	
Strengths 1. What is our competitive advantage? 2. What resources do we have? 3. What products are performing well?	**Weaknesses** 1. Where can we improve? 2. What products are underperforming? 3. Where are we lacking resources?
Opportunities 1. What new technology can we use? 2. Can we expand our operations? 3. What new segments can we test?	**Threats** 1. What regulations are changing? 2. What are competitors doing? 3. How are consumer trends changing?

SWOT ANALYSIS OF TATA MOTORS



PESTEL ANALYSIS

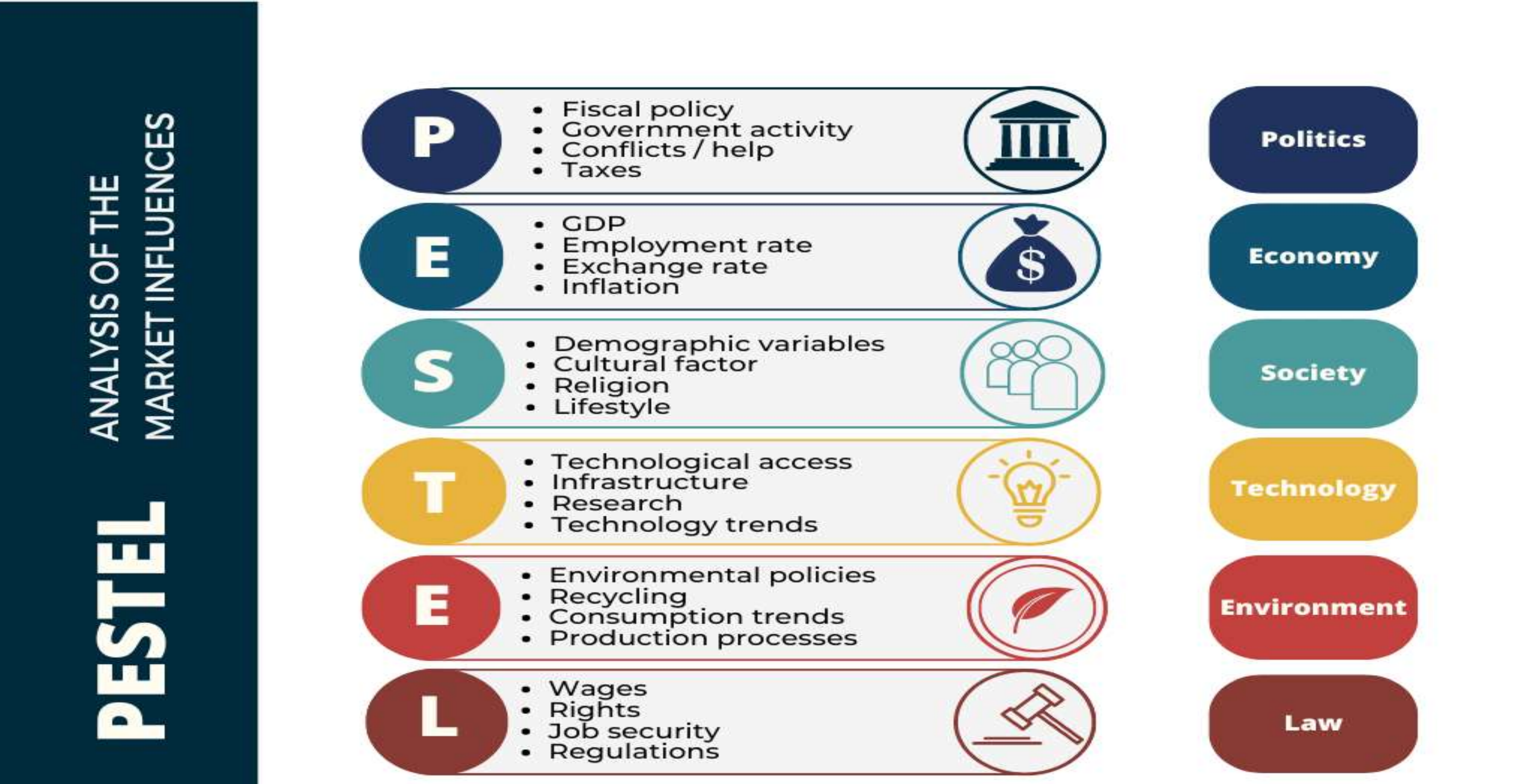
PESTLE Analysis is a strategic tool used by businesses and organizations to understand and evaluate the external environment they operate in.

The acronym PESTLE stands for Political, Economic, Social, Technological, Legal, and Environmental factors. This analysis helps organizations identify potential opportunities and threats in the market, aiding in strategic planning and decision-making.

In marketing, before any kind of strategy or tactical plan can be implemented, it is fundamental to conduct a full situational analysis. This analysis should be repeated every six months to identify any changes in the macro-environment.

Organisations that successfully monitor and respond to changes in the macro-environment can differentiate from the competition and thus have a competitive advantage over others.

The framework is also used to identify potential threats and weaknesses



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PESTEL ANALYSIS OF TATA MOTORS

POLITICAL	ECONOMIC
1. Impact of geopolitical tension on the automobile industry 2. Indian government's import duty concession consideration	1. An increase in the price of aluminum impact the industry
SOCIAL	**TECHNOLOGICAL**
1. Innovative product offerings by the automobile industry 2. Boom in the Indian SUV market due to shifting consumer preference	1. Investments in Research and Development to enhance technological capabilities 2. Growing market for connected vehicles and telematics 3. Delivering innovative, smarter and cleaner mobility solutions
LEGAL	**ENVIRONMENTAL**
1. Changes to emission norms in Europe 2. Involved in various legal proceedings that impact business 3. Increased compliance burden due to new regulation	1. Investments in sustainable operations and climate change 2. Tie-ups for the supply of green batteries

Corporate Social Responsibility

Corporate social responsibility is a type of business self-regulation with the aim of social accountability and making a positive impact on society.

Some ways that a company can embrace CSR include being environmentally friendly and eco-conscious; promoting diversity, equity and inclusion in the workplace; treating employees with respect; giving back to the community and ensuring business decisions are ethical.

Buchholz identified five key elements found in most, if not all, definitions of CSR:

1. Corporations have responsibilities that go beyond the production of goods and services at a profit.

2. These responsibilities involve helping to solve important social problems, especially those they have helped create.

3. Corporations have a broader constituency than stockholders alone.

4. Corporations have impacts that go beyond simple marketplace transactions.

5. Corporations serve a wider range of human values than can be captured by a sole focus on economic values.

Why CSR is important

There are many reasons for a company to embrace CSR practices.

1. It improves customers' perception of your brand.

2. It attracts and retains employees. According to Deloitte's Gen Z and Millennial Survey, the modern workforce prioritizes culture, diversity, and high impact over financial benefits. Three-quarters of Gen Z and millennials say an organization's community engagement and societal impact is an important factor when considering a potential employer.

3. It increases your appeal to investors.A company that takes CSR seriously signals to both investors and partners that it's interested in long-term as well as short-term gain. CSR goes hand in hand with environmental, social, and governance (ESG) metrics that help external analysts quantify the company's social efforts, and becomes a key factor for investors' consideration and continued interest.

Key Components of CSR

Environmental efforts: One primary focus of CSR is the environment. Businesses have large carbon footprints, regardless of size. Any steps a company can take to reduce its footprint is considered good for both the company and society.

Philanthropy: Businesses can practice social responsibility by donating money, products or services to social causes and nonprofits. Larger companies tend to have plentiful resources that can benefit charities and local community programs; however, even as a small business, your efforts can make a difference. If you have a specific charity or program in mind, reach out to the organization. Ask them about their specific needs and whether a donation of money, time or your company's products would best help them.

Ethical labor practices: Companies can demonstrate CSR by promoting workplace ethics and treating employees fairly. This is especially true of businesses that operate in international locations with labor laws that differ from those in the U.S.

Volunteering: Participating in local causes yourself and promoting employee volunteerism at community events says a lot about your company's sincerity. When your company does good deeds without expecting anything in return, you express concern (and support) for specific issues and social causes.

Corporate Governance

Corporate governance is the system of rules, practices, and processes by which a company is directed and controlled.

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The basic principles of corporate governance are accountability, transparency, fairness, responsibility, and risk management.If management is about running business, corporate governance is about seeing that it runs properly

Benefits of Corporate Governance

Corporate governance that is carefully thought out and implemented creates transparent rules and controls. It can serve as a guide to leadership, aligning the interests of shareholders, directors, management, community members, and employees. When implemented across all company levels of management and operations, good corporate governance can:

Build trust with investors, the community, and public officials

Give investors and other stakeholders a clear idea of a company's direction and business integrity

Promote long-term financial viability, opportunity, and returns

Facilitate the raising of capital

Contribute to rising share prices

Improve a company's reputation and customer retention

Reduce the potential for financial loss, waste, risks, and corruption

4 Pillars of Corporate Governance

4 PILLAR’S OF CORPORATE GOVERNANCE

Accountability:

This principle ensures that management and the board of directors are responsible for their actions and decisions. It involves being answerable for the company's performance and for addressing any issues that arise, which builds confidence among shareholders.

Fairness:

Fairness requires that all stakeholders, including minority shareholders, are treated equitably and have their rights protected. It ensures just and timely treatment for everyone involved in the company's operations.

Transparency:

This pillar emphasizes the need for clear and accurate disclosure of information regarding the company's financials, governance, and other material matters. It ensures that processes are observable and decisions are communicated openly, creating a clear understanding of the company's operations.

Responsibility:

Responsibility means taking ownership of the company's strategies and tasks to achieve its goals. It encompasses embracing risks within a defined appetite and upholding internal and external boundaries for operations.

MANAGERIAL VALUES & ETHICS

Ethos refers to habitual character and values of individuals, groups, races, etc. Managerial ethos is concerned with the character and values of managers as a professional group. Contemporary managers hold some specific values which affect work and some of these are: autonomy, equity, security and opportunity.

1. Autonomy: These managers tend to allow enough latitude to individual employees as long as the use of this freedom does not violate basic norms of the organisation. In the last two decades, some management practices have been innovated which are in keeping with this value of autonomy.

2. Equity: Equity refers to justice in rewarding performance. Modern managers strongly feel that a person must get a reward proportionate to his input.

3. Security (providing security both economically and emotionally): Keeping a person on his toes by making him feel insecure is slowly but steadily getting discredited as a management philosophy. Even the societies which have practiced "hire and fire" policy are unmistakably shifting towards providing security of job.

4. Opportunity: Providing enough career advancement opportunities to employees is yet another contemporary managerial value.

Besides these four values which affect a manager's work, the manager may have a strong "Work Value". Work Value refers to the worth a person ascribes to the opportunity of work. If you have a "strong" work value you are going to identify the worth or value of work to you in more ways than one. You may view work as an opportunity to: (a) accept challenges, (b) serve others, (c) earn money, (d) enjoy prestige and status, (e) be creative, or (f) be independent, etc.

Managers have a responsibility to behave ethically and manage ethically. They set the example for all employees and will determine how effective ethics management can be. Managerial Ethics promotes a number of benefits, both to the company culture and financial gain of the organization.

Managerial ethics can be broadly categorised into two types: legal ethics and moral ethics.

Legal Ethics

Legal ethics primarily refers to the adherence to laws, regulations, and statutes governing business operations. Here are some key elements of legal ethics

Includes ensuring compliance with legal requirements related to areas such as employment practices, environmental protection, consumer rights, and financial reporting.

Provide a baseline for acceptable behaviour and safe work environments.

Moral ethics

Moral ethics extend beyond legal obligations and focus on the principles of right and wrong as perceived by society or individuals. Here are the highlights of moral ethics:

Guides managerial decisions based on principles such as honesty, fairness, integrity, and respect for stakeholders, even when no specific laws or regulations dictate certain behaviours.

Serve as a higher standard, shaping the ethical culture within organisations and influencing the long-term reputation and success of businesses.

Examples of Managerial Ethics

Business social responsibility and managerial ethics are foundational principles in fostering trust, sustainability, and positive impact within organisations. Here are a few **managerial ethics examples** at workplaces:

Transparent communication: Transparency helps build trust and fosters a culture of honesty within the organisation. Managers should strive to maintain open lines of communication with their employees, providing honest and transparent information about company policies, decisions, and performance expectations.

Equality: This includes fair distribution of opportunities, resources, and recognition, as well as preventing discrimination and harassment in the workplace. Equality ensures that all employees are treated fairly and equally, regardless of race, gender, age, or other personal characteristics.

Respect for work-life balance: Managers should respect employees' time and strive to promote a healthy work-life balance. Respecting work-life balance involves adopting flexible work arrangements, accommodating employees' commitments, and actively discouraging overwork or presenteeism.

Privacy: Upholding confidentiality demonstrates respect for employees' privacy and helps maintain trust in managerial relationships. This can be done by keeping sensitive information shared by employees, such as personal issues, medical conditions, or grievances, confidential.

Ethical decision-making is one of the best examples of managerial ethics. It involves making choices that align with moral principles and values, both on an individual and organisational level. Managers who prioritise ethical decision-making consider the impact of their actions on all stakeholders, including employees, customers, shareholders, and the community.


THANK YOU!