

## **UNIT 2**

### **Concept of Business Environment**

All living creatures including human beings live within an environment. Apart from the natural environment, environment of humans include family, friends, peers and neighbours. It also includes man-made structures such as buildings, furniture, roads and other physical infrastructure. The individuals do not live in a vacuum. They continuously interact with their environment to live their lives.

Just like human beings, business also does not function in an isolated vacuum. Businesses function within a whole gambit of relevant environment and have to negotiate their way through it. The extent to which the business thrives depends on the manner in which it interacts with its environment. A business, which continually remains passive to the relevant changes in the environment, is destined to gradually fade-away in oblivion. To be successful business has not only recognize different elements of the environment but also respect, adapt to or have to manage and influence them. The business must continuously monitor and adapt to the environment if it is to survive and prosper. Disturbances in the environment may spell extreme threats or open up new opportunities for the firm. A successful business has to identify, appraise, and respond to the various opportunities and threats in its environment.

As stated above, the success of every business depends on adapting itself to the environment within which it functions. For example, when there is a change in the government policies, the business has to make the necessary changes to adapt itself to the new policies. Similarly, a change in the technology may render the existing products obsolete, as we have seen that the introduction of computer has replaced the typewriters; the colour television has made the black and white television out of fashion. Again a change in the fashion or customers' taste may shift the demand in the market for a particular product, e.g., the demand for jeans reduced the sale of other traditional wear. 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.

### **Definitions of Business Environment**

The term 'business environment' connotes 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 operate indirectly. Thus, 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 affects the business decisions of a firm.

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.”
4. According to Barry M. Richman and Melvyn Copen “Environment consists of factors that are largely if not totally, external and beyond the control of individual industrial enterprise and their managements. These are essentially the ‘givers’ within which firms and their management must operate in a specific country and they vary, often greatly, from country to country”.

From the above definitions we can extract that business environment consists of factors that are internal and external which poses threats to a firm or these provide opportunities for exploitation.

### **Concept of Business Environment**

A business firm is an open system. It gets resources from the environment and supplies its goods and services to the environment. There are different levels of environmental forces. Some are close and internal forces whereas others are external forces. External forces may be related to national level, regional level or international level. These environmental forces provide opportunities or threats to the business community. Every business organization tries

to grasp the available opportunities and face the threats that emerge from the business environment. Business organizations cannot change the external environment but they just react. They change their internal business components (internal environment) to grasp the external opportunities and face the external environmental threats. It is, therefore, very important to analyze business environment to survive and to get success for a business in its industry. It is, therefore, a vital role of managers to analyze business environment so that they could pursue effective business strategy. A business firm gets human resources, capital, technology, information, energy, and raw materials from society. It follows government rules and regulations, social norms and cultural values, regional treaty and global alignment, economic rules and tax policies of the government. Thus, a business organization is a dynamic entity because it operates in a dynamic business environment.

### **Features of Business Environment**

On the basis of the above discussion the features of business environment can be summarized as follows.

1. Business environment is the sum total of all factors external to the business firm and that greatly influence their functioning.
2. It covers factors and forces like customers, competitors, suppliers, government, and the social, cultural, political, technological and legal conditions.
3. The business environment is dynamic in nature, that means, it keeps on changing.
4. 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. .
5. Business Environment differs from place to place, region to region and country to country.

### **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. As stated above, the business environment is multifaceted, complex, and dynamic in nature and has a far-reaching impact on the survival and growth of the business. To be more specific, proper understanding of the social, political, legal and economic environment helps the business in the following ways:

1. **Identifying Firm's Strength and Weakness:** Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments
2. **Determining Opportunities and Threats:** The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.
3. **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.
4. **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.
5. **Image Building:** Environmental understanding helps the business organisations in improving their image by showing their sensitivity to the environment within which they are working.
6. **Meeting Competition:** It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly.

### **Factors Affecting Business Environment**

The **business environment** or the external forces acting on the business consists of a large number of forces. These are;

1. **Demographic Factors** - Demography is a study of human population with reference to its size, density, distribution and other connected vital statistics. This information is very essential in modern days for planning and development and also for framing laws relating to society and business. The density of population, the extent of their standard of living, the level of their education and the nature of their occupation etc., greatly influence the type of business the entrepreneurs could undertake. The business units require customers for its survival and growth; naturally business can thrive in populace regions, though now-a day's transportation helps a lot in bringing the commodities to the scarcely populated areas.
2. **Economic Factors** - The business enterprise is affected by various economic forces which cannot be controlled by the business. These economic forces, can be divided into two categories, ie. Demand Force and Competitive Force. For a business firm to survive and

thrive, it should have adequate demand for its products. At the same time, the firm has to compete with the rival firm producing similar products or substitute products.

### **Economic forces affecting demand:**

For customers to buy the commodity of the firm, they should have the ability to buy and willingness to buy. The ability to buy a commodity depends on the income of the customer, to be very precise, the disposable income of the customer. Out of the total income, the individual has to pay taxes due to the government and the disposable income will be less if the taxes are high. Secondly, if the individual wants to save more, the amount for spending will be less. Thus, the ability to buy a commodity depends on the a) Total income earned out of the employment of the individual b) The taxes of the government and c) The savings of the individual.

An increase in tax will reduce the demand for the commodity. The attitude of the individual towards 'Saving' will affect the demand. A change in 'Price' of the commodity will affect the demand. Expectation of a further change in price or change in taxes will also affect the demand.

- a) **Competitive forces:** The competitive tools are price cutting, advertisement, product differentiation, marketing strategies and consumer service.
- b) **Price cutting:** Price cutting or price reduction is a method which has to be adopted very cautiously, as it may ultimately lead to price-war between firms competing, resulting in reduction of profits.
- c) **Advertisement:** Advertisements in modern days have become a very powerful tool in persuading the consumers of a product to a particular brand. In monopolistic competition, a large share of the market is entrenched by firms making effective and aggressive advertisement.
- d) **Product differentiation:** A firm tries to get competitive strength by differentiating its product from those of its rivals. By having special design, colour, packing and features, the firm tries to get competitive edges.
- e) **Marketing strategies and Consumer Service:** Modern firm adopt various types of marketing strategies to create market for their products. Installment system, credit system, hire-purchase, etc., are the prominent ways by which firms try to cut through the poor segments of the society and convert them their customers. Besides customer

service like, free door delivery, quick service, after sales service, guarantee from defects up to a certain period are adopted to have more and more demand for their commodities.

### **3. Geographical and Ecological Environment**

- a) **Geographical** conditions, to a greater extent, influence the type of industries and business in a region. Generally, the people of a particular geographical region will have similar tastes, preferences and requirements. The geographical situation, the physical feature, the climate, rainfall, humidity, the vegetation, etc., decide the type of living in a particular region and only those industries which could cater to the needs of the people, could develop. In other words, geographical conditions exert profound influence on the location of the business.
- b) **Ecological** is a study “dealing with the interaction of living organism with each other and with their non-living environment”. It is a science telling about the relationship of all living beings. (ie., human beings, animals, plants) with non- living beings (air, water, soil represented by atmosphere, rivers, lakes, mountains and land).

### **4. Social and Cultural Environment**

Social and Cultural attitudes of a region influence the business organizations of the region influence the business organizations of the region in a verity of ways. The business practices and the management technique of the organization should cope with the social and cultural attitudes of the people.

The modern business is a social system in itself, but it is also part of a larger social system represented by society in general. Clearly, there should be some reciprocal relationship between business and this larger society. To put it shortly, the business should adopt itself to the social and cultural environment.

It is the class structure of the society. It tells about the social roles and organizations and the development of social institutions. The class-structure depend upon the occupation of the people, their education, income level, social status, their mobility, their attitude towards living, work and social relationship and above all, their attitude towards business.

Every society develops its own ‘culture’ which means how the members of that society behave and interact with each other in society, as well as outside society. The term culture includes values, norms, customs, ethics, goals and other accepted behavior patterns.

## 5. Political and Legal Environment

**Political Environment:** All business firms are directly affected to a greater or lesser degree by the government and its programmes. Political forces will decide the nature of business, programmes and projects to be undertaken for the development of the country. These **political forces** can be classified as **long term forces, quick changes, cyclical changes and regional factors.**

- a) **Long term forces** denote the secular trends in business activities due to the political conditions prevailing and the adoption of a particular line of policy in business.
- b) **Quick Changes** consist of sudden political changes due to army coup or revolt or capturing of the government machinery by the dissident group. The quick change may also be the result of proclamation of 'emergency' or 'Martial Law' due to sudden outbreak of war with a belligerent nation. In all these cases, the business manager has to take quick decisions to adopt his business to the changed environment.
- c) **Cyclical Changes** denote periodical anticipated changes like 'General Election' which may change the government and consequent change in plans and programmes as well as priorities by the new Government.

Regional Factors the regional consideration may dominate the political scene. Development of agricultural or development of an industrially backward region may draw the attention of politicians and government. Consequently, special legislations or policies will be framed to help the backward regions or sector. In such changes, the business has to adopt itself by studying and estimating the risks and dangers involved in taking decisions.

**Legal Environment:** Business in a country can be started and nurtured to grow into big business only within the legal system of the country. In this connection, all countries of the world have a separate set of laws for the control and direction of business. The business law of the country is a complex system of regulations and intervention that form the legal environment of the business. All business managers should have the knowledge of business law for taking management decision.

## 6. Technological Environment

Technology means “the systematic knowledge of the industrial arts”. ‘Technique’ denotes the method of performance. These two are increasingly used in modern literature on industrial production. The present age is the age of technology. Technology affects the business in two ways.

- a) Its impact on the society and
- b) Its impact on business operation.

### Importance of Business Environment Concept

In business all the activities are being organized and also carried out by the people to satisfy the needs of the consumers. So, it is an activity carried out by the people for the people which means people occupy a central place around which all the activities revolve. It means business is people and a human is always a dynamic entity who believes in change and it may be right to say that the only certainty today is change. It poses a huge challenge for today’s and especially tomorrow’s businessmen and managers to be aware of specific changes so as to keep themselves abreast with the latest happenings in the field of business to maintain their survival and sustainability in the market. Therefore, the study of business environment is of utmost importance for the managers and practitioners.

### Corporate Social Responsibility

What is Corporate Social Responsibility?

Corporate social responsibility (CSR) refers to business practices involving initiatives that benefit society. A business's CSR can encompass a wide variety of tactics, from giving away a portion of a company's proceeds to charity, to implementing "greener" business operations.

There are a few broad categories of social responsibility that many of today's businesses are practicing:

1. **Environmental efforts:** One primary focus of corporate social responsibility is the environment. Businesses regardless of size have a large carbon footprint. Any steps they can take to reduce those footprints are considered both good for the company and society as a whole.



2. **Philanthropy:** Businesses also practice social responsibility by donating to national and local charities. Businesses have a lot of resources that can benefit charities and local community programs.
3. **Ethical labor practices:** By treating employees fairly and ethically, companies can also demonstrate their corporate social responsibility. This is especially true of businesses that operate in international locations with labor laws that differ from those in the United States.
4. **Volunteering:** Attending volunteer events says a lot about a company's sincerity. By doing good deeds without expecting anything in return, companies are able to express their concern for specific issues and support for certain organizations.

### **Describing Corporate Social Responsibility**

There have been many definitions of corporate social responsibility in addition to the one given above; rather than describing them, listing the key elements found in various definitions may be more insightful. Buchholz identified five key elements found in most, if not all, definitions:

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.

### **The key components of CSR would include the following:**

1. **Corporate Governance:** Within the ambit of corporate governance, major issues are the accountability, transparency and conduct in conformity with the laws. Good corporate governance policy would enable the company to realize its corporate objectives, protect shareholder rights, meet legal requirements and create transparency for all stakeholders.
2. **Business Ethics:** Relates to value-based and ethical business practices. 'Business ethics defines how a company integrates core values – such as honesty, trust, respect, and fairness – into its policies, practices, and decision

making. Business ethics also involves a company's compliance with legal standards and adherence to internal rules and regulations.'<sup>1</sup>

3. **Workplace and labour relations:** Human resources are most important and critical to a company. Good CSR practices relating to workplace and labour relations can help in improving the workplace in terms of health and safety, employee relations as well as result in a healthy balance between work and non-work aspects of employees' life. It can also make it easier to recruit employees and make them stay longer, thereby reducing the costs and disruption of recruitment and retraining.
4. **Affirmative action/good practices:** Equal opportunity employer, diversity of workforce that includes people with disability, people from the local community etc., gender policy, code of conduct/guidelines on prevention of sexual harassment at workplace, prevention of HIV/AIDS at workplace, employee volunteering etc. are some of the good practices which reflect CSR practices of the company.
5. **Supply Chain:** The business process of the company is not just limited to the operations internal to the company but to the entire supply chain involved in goods and services. If anyone from the supply chain neglects social, environmental, human rights or other aspects, it may reflect badly on the company and may ultimately affect business heavily. Thus, company should use its strategic position to influence the entire supply chain to positively impact the stakeholders.
6. **Customers:** The products and services of a company are ultimately aimed at the customers. The cost and quality of products may be of greatest concern to the customers but these are not the only aspects that the customers are concerned with. With increased awareness and means of communication, customer satisfaction and loyalty would depend on how the company has produced the goods and services, considering the social, environmental, supply-chain and other such aspects.
7. **Environment:** Merely meeting legal requirements in itself does not comprise CSR but it requires company to engage in such a way that goes beyond mandatory requirements and delivers environmental benefits. It would include, but not limited to, finding sustainable solutions for natural resources, reducing adverse impacts on environment, reducing environment-risky pollutants/emissions as well as producing environment-friendly goods.

- 8. Community:** A major stakeholder to the business is the community in which the company operates. The involvement of a company with the community would depend upon its direct interaction with the community and assessment of issues/risks faced by those living in the company surrounding areas. This helps in delivering a community-focused CSR strategy – making positive changes to the lives of the people and improving the brand-image of the company. Involvement with the community could be both direct & indirect – through funding and other support for community projects implemented by local agencies.

### **Benefits of CSR for the Organizations**

Some of the positive outcomes that can arise when businesses adopt a policy of social responsibility include:

#### **1. Company benefits:**

1. Improved financial performance;
2. Lower operating costs;
3. Enhanced brand image and reputation;
4. Increased sales and customer loyalty;
5. Greater productivity and quality;
6. More ability to attract and retain employees;
7. Reduced regulatory oversight;
8. Access to capital;
9. Workforce diversity;
10. Product safety and decreased liability.

#### **2. Benefits to the community and the general public:**

1. Charitable contributions;
2. Employee volunteer programmes;
3. Corporate involvement in community education, employment and homelessness programmes;
4. Product safety and quality.

#### **3. Environmental benefits:**

1. Greater material recyclability;

2. Better product durability and functionality;
3. Greater use of renewable resources;
4. Integration of environmental management tools into business plans, including life-cycle assessment and costing, environmental management standards, and eco-labelling.

Nevertheless, many companies continue to overlook CSR in the supply chain - for example by importing and retailing timber that has been illegally harvested. While governments can impose embargos and penalties on offending companies, the organizations themselves can make a commitment to sustainability by being more discerning in their choice of suppliers.

The concept of corporate social responsibility is now firmly rooted on the global business agenda. But in order to move from theory to concrete action, many obstacles need to be overcome.

A key challenge facing business is the need for more reliable indicators of progress in the field of CSR, along with the dissemination of CSR strategies. Transparency and dialogue can help to make a business appear more trustworthy, and push up the standards of other organizations at the same time.

## **Examples of CSR Initiatives in India**

### **1. ITC Limited**

ITC partnered the Indian farmer for close to a century. ITC is now engaged in elevating this partnership to a new paradigm by leveraging information technology through its trailblazing 'e-Choupal' initiative. ITC is significantly widening its farmer partnerships to embrace a host of value-adding activities: creating livelihoods

by helping poor tribals make their wastelands productive; investing in rainwater harvesting to bring much-needed irrigation to parched drylands; empowering rural women by helping them evolve into entrepreneurs; and providing infrastructural support to make schools exciting for village children. Through these rural partnerships, ITC touches the lives of nearly 3 million villagers across India.

### **2. Larsen & Toubro (L & T) Limited**

Considering that construction industry is the second largest employer in India after agriculture, employing about 32 million-strong workforce, L&T set out to regulate and promote Construction Vocational Training (CVT) in India by

establishing a Construction Skills Training Institute (CSTI) on a 5.5 acre land, close to its Construction Division Headquarters at Manapakkam, Chennai. CSTI imparts, totally free of cost, basic training in formwork, carpentry, masonry, bar-bending, plumbing and sanitary, scaffolder and electrical wireman trades to a wide spectrum of the rural poor.

As a result of the good response it received in Chennai, CSTI set up a branch at Panvel, Mumbai, initially offering training in formwork, carpentry and masonry trades. The Manapakkam and Panvel facilities together provide training to about 300 candidates annually who are inducted after a process of selection, the minimum qualification being tenth standard. Since inception, these two units have produced about 2,000 skilled workmen in various trades, with about sixty percent of them being deployed to L&T's jobsites spread across the country. The success of this training-initiative demonstrates that adoption of systematic training techniques are bound to yield efficient and skilled personnel in the shortest possible time, and in the power to convert the potential of the Rural Youth in Construction and upgrading Rural Economy in a small way

### **India Aluminium Company Limited**

The Women's Empowerment project was initiated by Indal-Muri in Jharkhand where the Company operates an alumina refining plant. It was implemented in collaboration with an NGO, CARE-Jharkhand. The central problem this project has attempted to address is the very low socio-economic condition of the rural and tribal population of Silli block caused by low agricultural productivity, lack of or low cash income, unresponsive health/ Integrated Child Development Services (ICDS) schemes. The Project has helped set up around 100 Self Help Groups so far, which are running successfully with members trained in various vocational income-generating skills, agricultural methods for better yields and health care initiatives. About 2000 women have been brought into the fold of this activity helping to improve not just their own lives but the quality of life of their children and families as well.

The Indal Women's Empowerment & Child Care project employed integrated package of strategies and interventions, such as:

1. Establishment and Strengthening of Self Help Groups (SHG) in 30 strategically selected villages.
2. Promotion of Nutrition Gardens and improved land /agricultural and natural resource management practices.

3. Creation of demand for improved ICDS/ health services through Self Help Groups and strengthening ICDS/ Health Department's service delivery

### **Corporate Governance**

Corporate Governance refers to the way a corporation is governed. It is the technique by which companies are directed and managed. It means carrying the business as per the stakeholders' desires. It is actually conducted by the board of Directors and the concerned committees for the company's stakeholder's benefit. It is all about balancing individual and societal goals, as well as, economic and social goals.

Corporate Governance is the interaction between various participants (shareholders, board of directors, and company's management) in shaping corporation's performance and the way it is proceeding towards. The relationship between the owners and the managers in an organization must be healthy and there should be no conflict between the two. The owners must see that individual's actual performance is according to the standard performance. These dimensions of corporate governance should not be overlooked.

Corporate Governance deals with the manner the providers of finance guarantee themselves of getting a fair return on their investment. Corporate Governance clearly distinguishes between the owners and the managers. The managers are the deciding authority. In modern corporations, the functions/ tasks of owners and managers should be clearly defined, rather, harmonizing.

Corporate Governance deals with determining ways to take effective strategic decisions. It gives ultimate authority and complete responsibility to the Board of Directors. In today's market- oriented economy, the need for corporate governance arises. Also, efficiency as well as globalization are significant factors urging corporate governance. Corporate Governance is essential to develop added value to the stakeholders.

Corporate Governance ensures transparency which ensures strong and balanced economic development. This also ensures that the interests of all shareholders (majority as well as minority shareholders) are safeguarded. It ensures that all shareholders fully exercise their rights and that the organization fully recognizes their rights.

Corporate Governance has a broad scope. It includes both social and institutional aspects. Corporate Governance encourages a trustworthy, moral, as well as ethical environment.

## Benefits of Corporate Governance

1. Good corporate governance ensures corporate success and economic growth.
2. Strong corporate governance maintains investors' confidence, as a result of which, company can raise capital efficiently and effectively.
3. It lowers the capital cost.
4. There is a positive impact on the share price.
5. It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organization.
6. Good corporate governance also minimizes wastages, corruption, risks and mismanagement.
7. It helps in brand formation and development.
8. It ensures organization is managed in a manner that fits the best interests of all.