



“बेटी बचाओ, बेटी पढ़ाओ”

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Faculty Name	-	JV'n Divya Nagar (Lecturer)
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Course Name	-	Business Environment
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Introduction & Brief Discussion about the Topic

BUSINESS ENVIRONMENT

WHAT IS BUSINESS?

The term business refers to an organization or enterprising entity engaged in commercial, industrial, or professional activities. The purpose of a business is to organize some sort of economic production of goods or services. Businesses can be for-profit entities or non-profit organizations fulfilling a charitable mission or furthering a social cause. Businesses range in scale and scope from sole proprietorships to large, international corporations.

WHAT IS ENVIRONMENT?

Environment can be defined as a sum total of all the living and non-living elements and their effects that influence human life. While all living or biotic elements are animals, plants, forests, fisheries, and birds, non-living or a biotic elements include water, land, sunlight, rocks, and air.

WHAT IS BUSINESS ENVIRONMENT?

Business Environment is sum or collection of all internal and external factors such as employees, customer's needs and expectations, supply and demand, management, clients, suppliers, owners, activities by government, innovation in technology, social trends, market trends, economic changes, etc. These factors affect the function of the company and how a company works directly or indirectly. Sum of these factors influences the companies or business organizations environment and situation. The term "Business environment" is the sum of all conditions, events, and influences that surround and affect business activities and growth.

MAIN FEATURES OF BUSINESS ENVIRONMENT:

The main features of business environment are:

1. All the external forces:

Business Environment includes all the forces, institutions and factors which directly or indirectly affect the Business Organizations.

Example: When Pepsi and Coca-Cola got permission to set up their business in India, it was an opportunity for them and threat for local manufacturers like gold spot, camp-cola etc.

2. Specific and general forces:

Business environment includes specific forces such as investors, customers, competitors and suppliers. Non-human or general forces are Social, Legal, Technological, Political, etc. which affect the Business indirectly.

Specific Example: Suppliers, Customers, Investors, Competitors, Financers etc.

General Example: Economic, Social, Political, Legal and Technological conditions.

3. Inter Relations:

All the forces and factors of Business Environment are inter-related to each other. For example with inclination of youth towards western culture, the demand for fast food is increasing.

Example: The increased life expectancy of people and awareness of health consciousness has increased the demand for many health products like diet coke, olive oil, and so many health products.

4. Uncertainty:

It is very difficult to predict the changes of Business Environment. As environment is changing very fast for example in IT, fashion industry frequent and fast changes are taking place.

Example: There has been a sharp decline in the prices of Android smart phones due to the entry of many new companies.

5. Dynamic:

Business environment is highly flexible and keep changing. It is not static or rigid that is why it is essential to monitor and scan the business environment continuously.

Example: Many established companies in FMCG (Fast Moving Consumer goods) sector are focusing on producing the goods with natural ingredients with the entry of 'Patanjali Products'.

6. Complex:

It is very difficult to understand the impact of Business environment on the companies. Although it is easy to scan the environment but it is very difficult to know how these changes will influence Business decisions. Some-time change may be minor but it might have large impact. For example, a change in government policy to increase the tax rate by 5% may affect the income of company by large amount.

Example: Increase in goods and service tax to 15 % would increase the revenue of the government (economic), which would help the government to

improve social being of people (social) and reduce the personal disposable income of rich people and thereby controlling inflation.

7. Relativity:

The impact of Business environment may differ from company to company or country to country. For example, when consumer organization CES published the report of finding pesticides in cold drinks, resulted in decrease in sale of cold drinks, on the other hand it increased the sale of juice and other drinks.

Example: In China, the electricity to the industry is provided at cheaper rates as the consumption increases and hence, it leads to mass production whereas, in India, it is otherwise, higher consumption of electricity leads to costly electricity which results in lower production & higher cost of production.

IMPORTANCE OF BUSINESS ENVIRONMENT:

Just like us, business operations do not survive in confinement. Every enterprise is not an island to itself; it subsists, endures and develops within the circumstances of the part and forces of its situation. While an individual enterprise is able to do minute to change or manage these forces, it has no choice to reacting or modifying according to them. Good knowledge of the environment by business managers allows them not only to recognise and assess but also to respond to the forces outside to their enterprises. The significance of the business environment and its perception by managers can be understood if we contemplate the below-mentioned following points:

1. It Helps in Identifying Opportunities and Making First Mover Advantage

- ✓ The environment provides numerous opportunities, and it is necessary to identify the opportunities to improve the performance of a business.

- ✓ Early identification gives an opportunity to an enterprise be the first to identify opportunity instead of losing them to competitors. Example: ‘Airtel’ identified the need for fast internet and took first-mover advantage by providing 4G speed to its users followed by Vodafone and Idea.
- ✓ Asian paints lost market share to Nerolac because it failed to match its technology.

2. It Helps the Firm Identify Threats and Early Warning Signals

- ✓ The business environment helps in understanding the threats which are likely to happen in the future.
- ✓ Environmental awareness can help managers identify various threats on time and serve as an early warning signal. Example: Patanjali products have become a warning signal to the rest of the FMCG.
- ✓ The sector to develop similar products. Similarly, if an Indian firm finds that a foreign multinational is entering the Indian market with new substitutes; it needs to prepare accordingly.
- ✓ Chinese mobile phones have become a threat for Indian mobile phone manufacturers.

3. It Helps in Tapping Useful Resources

- ✓ Business and industry avail the resources (inputs) from the environment and convert them into usable products (outputs) and provide to society.
- ✓ The environment provides various inputs (resources) the like finance, machines, raw materials, power and water, labour, etc.
- ✓ The business enterprise provides outputs such as goods and services to the customers, payment of taxes to the government, to investors and so on.
- ✓ **Example:** With the demand for the latest technology, manufacturers will tap the resources from the environment to manufacture LED TVs

and Smart TVs rather than collecting resources for colour or Black & White TVs.

4. It Helps in Coping With Rapid Changes

- ✓ The business environment is changing very rapidly, and the industry is getting affected by changing market conditions.
- ✓ Turbulent market environment, less brand loyalty, divisions of markets, changes in fashions, more demanding customers, and global competition are some examples of changing the business environment.
- ✓ **Example:** Jack Ma started Alibaba as he could see the potential of interest in E-Commerce.

5. It Helps in Assisting in Planning and Policy Formulation

- ✓ The business environment brings both threats and opportunities to a business.
- ✓ Awareness of business environment helps in deciding future planning or decision making.
- ✓ **Example:** Multiple entries of Chinese phones like VIVO, Gionee, OPPO, etc. have posed a threat to local players like Micromax, Karbonn, Lava etc. to think afresh how to deal with the situation.

6. It Helps in Improving Performance

- ✓ Environmental studies reveal that the success of any enterprise is closely bound with the changes in the environment.
- ✓ The enterprises which monitor and adopt suitable business practices not only improve their performance but become leaders in the industry also.
- ✓ **Example:** Apple has been successful in maintaining its market share due to its proper understanding of the environment and making suitable innovations in its products.