



“बेटी बचाओ, बेटी पढ़ाओ”

JAYOTI VIDYAPEETH WOMEN'S UNIVERSITY, JAIPUR

Faculty of Law & Management

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Introduction & Brief Discussion about the Topic

BUSINESS ENVIRONMENT

FACTORS AFFECTING BUSINESS ENVIRONMENT

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, i.e. 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 complete 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.

✓ **Competitive forces:** The competitive tools are price cutting, advertisement, product differentiation, marketing strategies and consumer service.

✓ **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.

- ✓ **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.
- ✓ **Product differentiation:** A firm tries to get competitive strength by differentiating its product from those of its rivals. By having special design, color, packing and features, the firm tries to get competitive edges.
- ✓ **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

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.

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. (i.e., 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 variety 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.

5. Political and Legal 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.

- ✓ **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.
- ✓ **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.
- ✓ **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.

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.

- ✓ Its impact on the society and
- ✓ Its impact on business operation.