

Chapter- 3

BUSINESS ENVIRONMENT

Introduction

The term 'business environment' means external forces, factors and institutions that are beyond the control of the business and they affect the functioning of business enterprises. The interaction between the business and its environment helps in identifying the opportunities for and threats to the business. Hence it is important to learn about the various components of the business environment, which consists of the economic aspect, the socio-cultural aspects, the political framework, the legal aspects and the technological aspects.

Important points:

- Business environment is multifaceted, complex, and dynamic in nature. The changes in business environment are unpredictable. It differs from place to place, region to region and country to country. Environmental analysis makes the task of managers easier in dealing with business challenges. It helps the firms to analyze the competitors' strategies and formulate their own strategies accordingly keeping in mind its own strength and weakness.
- **Types of Business Environment**
(a) *Economic environment*: (i) Economic Conditions; (ii) Economic Policies; (iii) Economic System

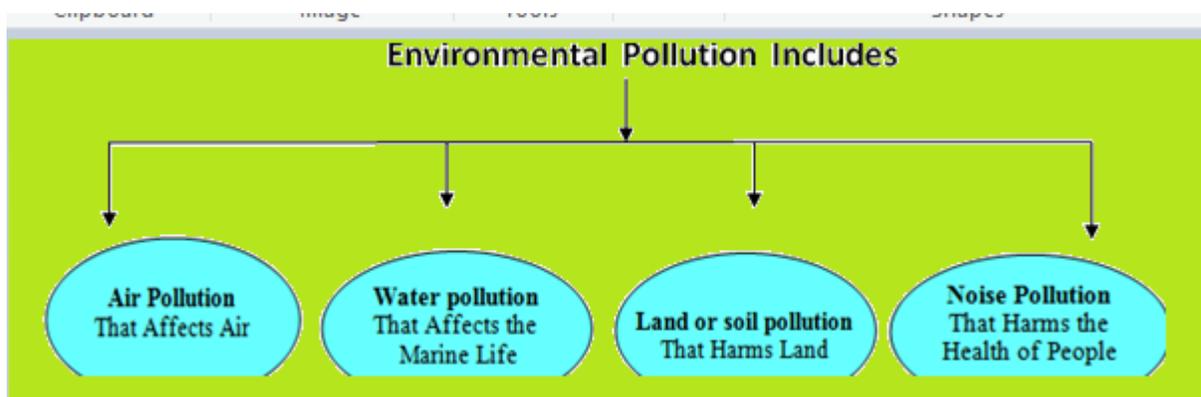
(b) *Non-economic environment* : (i) Social Environment; (ii) Political Environment; (iii) Legal Environment; (iv) Technological Environment; (v) Demographic Environment; (vi) Natural Environment
- **Recent development in Indian Economy**
(a) **Liberalisation**: Liberalisation refers to the process of eliminating unnecessary controls and restrictions on the smooth functioning of business enterprises.
(b) **Privatisation** : Privatisation refers to reducing the role of public sector by involving the private sectors in most activities.
(c) **Globalisation** : Globalisation means 'integrating' the economy of a country with the world economy. This implies free flow of goods and services, capital, technology and labour across national boundaries.
- **Social Responsibility of Business**: Social responsibility of business refers to the obligation of business enterprises to adopt policies and plans of actions that are desirable

in terms of the expectation, values and interest of the society. It ensures that the interests of different groups of the public are not adversely affected by the decisions and policies of the business.

Social Responsibilities Towards Different Groups

- **Responsibility towards the shareholders or owners**
- **Responsibility towards the Employees**
- **Responsibility towards the Consumers**
- **Responsibility towards the Government**
- **Responsibility towards the Community**

- **Business Ethics:** Business ethics are the moral principles, which guide the behavior of businessmen or business activities in relation to the society. It provides certain code of conduct to carry on the business in a morally justified manner. Business ethics means moral behavior on the part of businessmen. Elements of business ethics include – discipline, honesty, fair and reasonable treatment, perfection in the conduct of life and desirable business practices.
- **Business and Environmental pollution:** - The health of plants and animals depend on the quality of environment in which they live. Rapid industrialization, evolvement of fast food centers and traffic have caused much damage to the environment.



Need for Pollution Control:-

1. To reduce safety hazards and to ensure safety of life.
2. To reduce risk of liability to pay compensation to people.
3. To protect public health.

4. To reduce inconveniences like water pollution (which will affect fishes and other water plants), human health hazards such as breathing difficulty, irritation in eyes etc.
5. To save cost of cleaning the land and machines.

Learn new key words:

- **Economic Environment-** The survival and success of each and every business enterprise depend fully on its economic environment. The economic environment includes economic conditions, economic policies and economic system of the country
- **Non Economic Environment-** Non-economic environment comprises social, political, legal, technological, demographic and natural environment. All these have a bearing on the strategies adopted by the firms and any change in these areas is likely to have a far-reaching impact on their operations

Evaluate yourself

1. The recent developments in Indian economy that have greatly influenced the working of business units in India, Therefore explain the importance and types of business environment?
2. What do you understand by social responsibility and how it is towards different interest groups?
3. Explain the concept of Business ethics and what are its elements that help business to grow?
4. Briefly explain the impact of government policy changes on Business and Industry?

Maximize your marks

- Learn the key words
- Get into the little details of the above mentioned important points.
- Answer all the question to evaluate yourself and to maximize your marks.