CA FOUNDATION

BUSINESS ENVIRONMENT

CHAPTER OVERVIEW

BUSINESS ENVIRONMENT

- Introduction
- Environmental Analysis
  - Internal Environment
  - External Environment
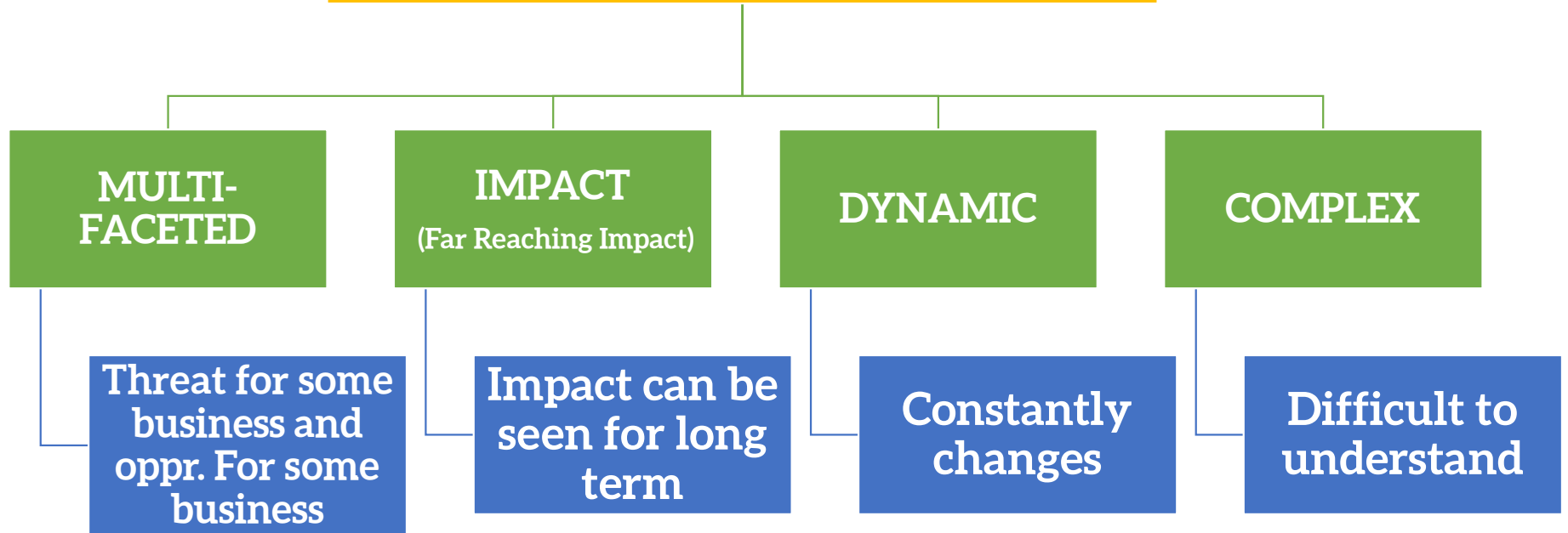   - Micro Environment
    - Macro Environment
- PESTLE Analysis
- Strategic Response to Environment
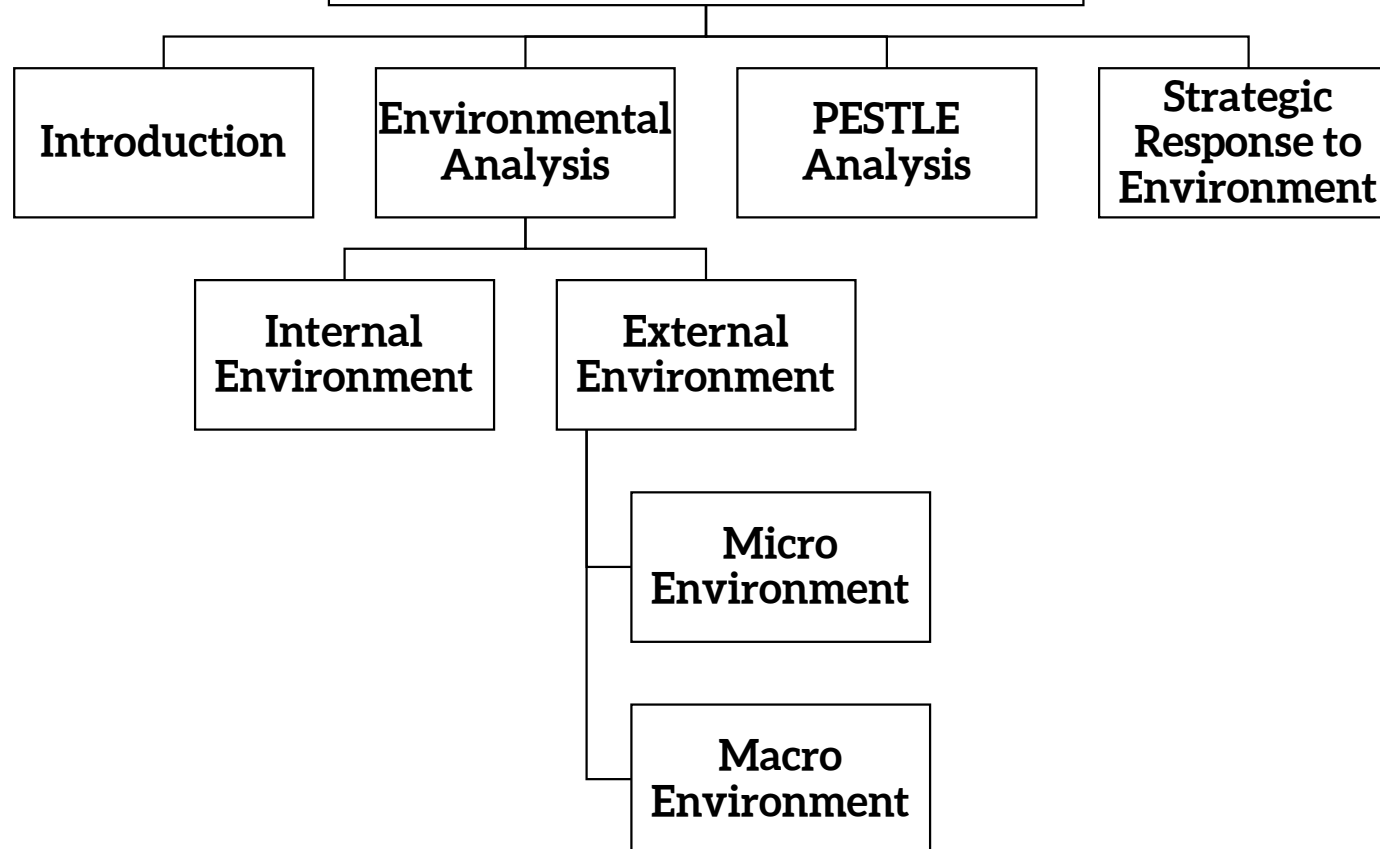
- All those external forces which affect the business decisions, strategies and actions taken by firm is known as Business Environment

- Business is successful when it identify, appraise (examine, evaluate), and respond to various opportunities or threats its environment

- Modern authors include both internal as well as external factors as a part of Business Environment

- Charles Darwin quoted "survival of the fittest" from the context of business only those business survives which are adaptive to change and respond to change

- Analysing business environment is a continuous process

CHARACTERISTICS OF BUSINESS

MULTI-FACETED
Threat for some business and oppr. For some business

IMPACT
(Far Reaching Impact)
Impact can be seen for long term

DYNAMIC
Constantly changes

COMPLEX
Difficult to understand

KEYWORD: MIDC

RELATIONSHIP BETWEEN ORGANISATION AND ITS ENVIRONMENT

EXCHANGE OF INFORMATION

- There is difference between data and information
- Data which is commercially usable is called Information

- Eg. Motor Vehicle Act has introduced new aspects about Engine which is not useful to a biscuit manufacturer so for him its data but for a motor vehicle company its information because it will be used commercially

EXCHANGE OF RESOURCES

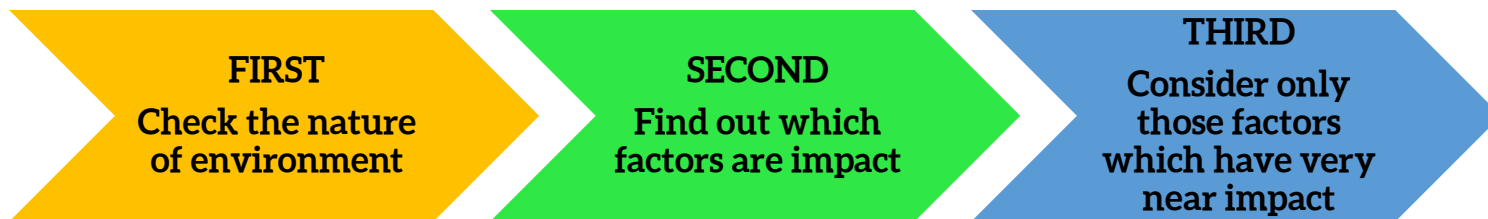- Business takes 5Ms from Environment

- Processes" the same, makes product and then goes back to the environment and sells it

- Interaction process – Perceiving the needs of external environment, catering to them and satisfying the needs

EXCHANGE OF INFLUENCE AND POWER

- When the business's acquire dominant position they can influence the business environment.

- And also environment can influence the business

FRAMEWORK TO UNDERSTAND THE ENVIRONMENTAL INFLUENCE

- **Firstly** take an **initial view** of the **nature of business environment** if its **static or ever changing, simple or complex to understand**

- **Secondly analyse** which environmental **factors would actually impact** the business and also **analyse its impact**

- **Final step address** those **factors** which would **impact the business in very near future**

FIRST
Check the nature of environment

SECOND
Find out which factors are impact

THIRD
Consider only those factors which have very near impact

ENVIRONMENTAL ANALYSIS AND ENVIRONMENTAL SCANNING

- **ENVIRONMENTAL ANALYSIS** means **anticipating** about future

- **ENVIRONMENTAL SCANNING** means
- **Identifying the threats and opportunities,**
- **Making strategies** in relation to the same and
- **Implementing** the strategies

- ENVIRONMENTAL SCANNING has **FOUR OUTCOMES**

a. **EVENT:** Important or Specific **Occurrence.** They can be easily tracked but remember they happen in internal as well as external environment
b. **TREND:** Represents **pattern of change** and over a long period of time this becomes a habit
c. **ISSUES:** **Problems** that arises in relation to EVENT and TREND
d. **EXPECTATION:** **Demand** made by customers or interested group of customer

BUSINESS ENVIRONMENT

INTERNAL ENVIRONMENT
- Value System
- Mission
- Objectives
- Organisational Structure
- Corporate Culture
- Labour Union
- Physical Resources
- Technical Resources

STRENGTH

WEAKNESS

EXTERNAL ENVIRONMENT

MICRO ENVIRONMENT

OPPORTUNITIES

MACRO ENVIRONMENT

THREAT

SWOT ANALYSIS

- **STRENGTH:** Inherent Capacity by using which a business can gain strategic advantage over its competitors

- **WEAKNESS:** Inherent Limitation which creates strategic disadvantage

- **OPPORTUNITY:** Favourable Condition for the business

- **THREAT:** Unfavourable Condition

- CAPITALISE ON OPPORTUNITIES → THROUGH USE OF STRENGTH → NEUTRALISE THE THREAT → BY MINIMIZING THE IMPACT OF WEAKNESS

- IN SWOT ANALYSIS WE CONSIDER BOTH INTERNAL AS WELL AS EXTERNAL ENVIRONMENT

This environment impacts the day to day activities of business

MICRO

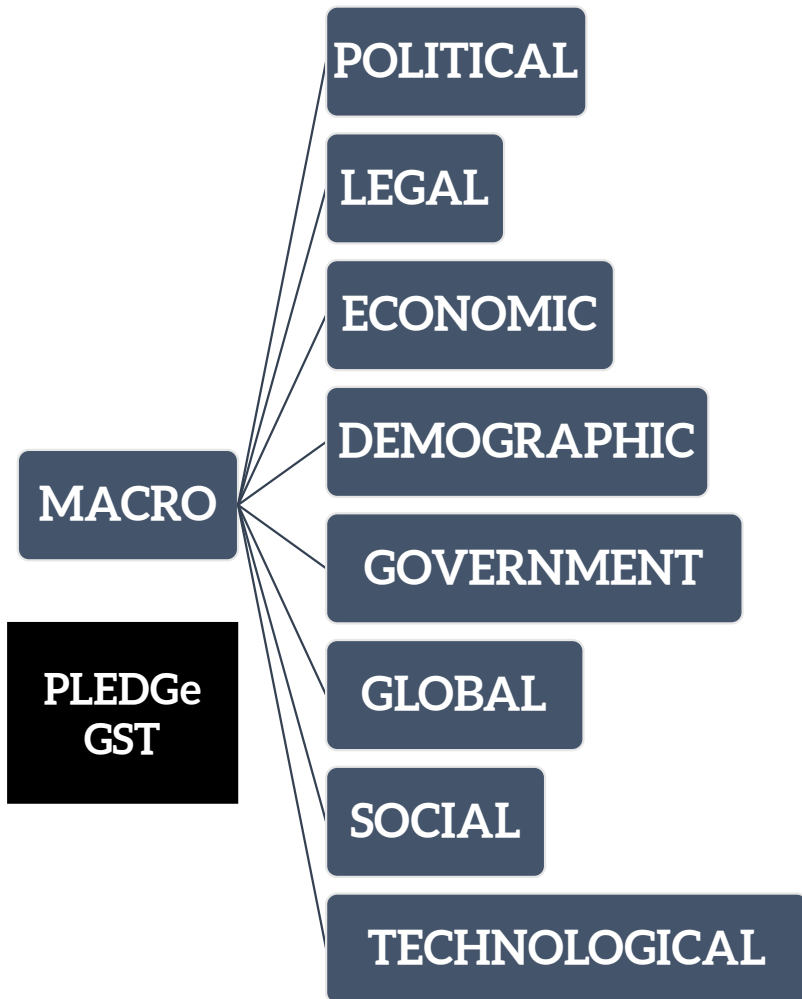**TASK ENV.**

COMICS

- CUSTOMERS
- ORGANISATION
- MARKET
- INTERMEDIARIES
- COMPETITORS
- SUPPLIERS

- **CUSTOMERS:** The one who pays for the product (Peter Drucker)

- **ORGANISATION:** Consist of Owners, BOD , Employees (Specific Group)

- **MARKET:** Price Sensitivity of the market, Distribution System in the market, Equilibrium reached or not

- **INTERMEDIARIES:** Retailers, Big Departmental Stores, Online Stores

- **COMPETITORS:** Compete in Direct or Indirect Manner

- **SUPPLIERS:** The organisation which provides the raw material, equipment and so on. OUTSOURCING vs IN - HOUSE

MACRO

PLEDGe GST

- POLITICAL
- LEGAL
- ECONOMIC
- DEMOGRAPHIC
- GOVERNMENT
- GLOBAL
- SOCIAL
- TECHNOLOGICAL

POLITICAL – LEGAL

- Political Factor represents the ideology of ruling party

- Legal Factor represents the laws rules and regulations that followed in the country

- Elements of Political – Legal Environment

- GOVERNMENT:
- Type of govt, tax rates set by govt., public policies made by govt. has a strong impact on businesses

- LEGAL: Laws introduced newly in India

- POLITICAL: Pressure of political groups

ECONOMIC ENVIRONMENT

- Factors affecting the Economic Environment
- Economic System: Capitalist, Socialist, Mixed

- Economic Condition: Good or Bad

- Economic Policies: Industrial Policy, Fiscal Policy, Monetary Policy, Foreign Investment Policy, Export – Import Policy

DEMOGRAPHIC ENVIRONMENT

- Demographic environment means population size and composition in an area, district or country or world

- Factors affecting Demographic Environment
- Population Size: High or Low
- Geographic Distribution: Migration of population
- Ethnic Mix: Diversity (eg. Shampoo sold in Urban area vs Rural area)
- Income Distribution: Increasing or decreasing

SOCIO – CULTURAL ENVIRONMENT

- Socio – Cultural Environment means customs, traditions, practices, values of society etc.

- Social Concerns → Pollution, Corruption, Mass Media
- Social Attitudes → Customs, Practices, Values
- Family Structure → Joint or Nuclear
- Status of Women → Equal or Unequal
- Educational Level → High or Low

- McDonald's remove meat from their burger when they came to India, also introduced Masala Dosa Burger

TECHNOLOGICAL ENVIRONMENT

- Technological Environment refers to how change in technology impacts the business

- Technological Innovation
- Risks due to Technological Change
- R&D in the country and govt's allocation for R&D

GLOBAL ENVIRONMENT

- Identifying the global markets to see the position our business

- Impact of international events on our business and economy like sports events or terrorist attack

- Keep a track of emerging markets e.g. Vietnam

- This environmental factor has become more evident after Globalisation because the activity of export is gaining popularity day – by – day

PESTLE ANALYSIS

- PESTLE stands for

- P – Political
- E – Economic
- S – Socio – Cultural
- T – Technological
- L – Legal
- E – Environmental

- It focuses on identifying the threats and opportunities of these factors
- It is a tool which encourages management to carry out pro-active and structured thinking in its decision making
- Difference between SWOT and PESTLE is SWOT is wide as it considers INTERNAL as well as EXTERNAL environment while PESTLE only considers EXTERNAL environment

STRATEGIC RESPONSES TO BUSINESS ENVIRONMENTS

- INTERNAL RESPONSES:

Administrative:
- Most common response
- It includes revising the mission, adjusting the objectives or goals, making proper budgets etc

Competitive:
- In this the business makes it more competitive as compared to the competition that is seen the external environment. *(Airtel vs Jio)*
- It helps in increasing profits
- Also applicable to non – profit organisations

Collective:
- In this responses business come together to benefit from each other's advantages
- Eg. Vodafone & Idea

STRATEGIC RESPONSES TO BUSINESS ENVIRONMENTS

- HOLISTIC RESPONSES: The way in which business is run

Least Resistance:
- Passive in behaviour
- Not much goal seeking and resource transforming
- Eg. BSNL

Proceed with Caution:
- Analyse the environment on constant basis and then make strategies
- Constantly adapting to change
- Eg. Airtel

Dynamic Response
- They convert adversities into opportunities
- Eg. Reliance Jio

THANK YOU