

# CHAPTER 2

## BUSINESS ENVIRONMENT

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# Business Environment

- It includes all the external forces , factors or conditions that have some impact on business , decisions , strategies & actions taken by the firm
- They are outside factors that can lead to opportunities , threats , and many other factors

# Characteristics of Business Environment (MIDC)

- **Multi- Faceted** – Any change in environment has different impact , it can be beneficial to someone and bad for another
- **Far reaching impact** – Environment change has a impact on organization in several ways
- **Dynamic** – Environment is changing constantly and changing its shape and character
- **Complex** – Environment is very complex , it is easier to understand in parts , but difficult to understand in totality

# Importance of Business Environment

- **Determining opportunities & threats** – Environment helps us to bring out opportunities and threats to business .
- **Giving direction for growth** – Enables us to find areas of growth & expansion . Eg - Instagram
- **Continuous Learning** – Managers are motivated to learn , so they can meet changes as per environment . Eg – CA Practice
- **Image Building** – It helps organization to improve their image . Eg –Akshay Kumar
- **Meeting Competition** – It helps firms make competitive strategies. Eg - Jio

# Relationship between Organization & it's Environment

- **Exchange of information** – We get information from the environment based on which we use information for planning & decision making. We also give information to several agencies
- **Exchange of resources** – We obtain 5 M's from the environment and produce products & services for the environment. We should listen to clientele and then produce goods & services as per them which is known as Interaction
- **Exchange of influence & power** – Environment will influence the business & sometimes Business is in a position to control the environment

# Organizations Response to its Environment

- **Administrative Response** (Policies , Procedures) – Here we will make strategy , policies and fix budgets , and make mission , so we can achieve our objectives .  
Eg - Apple
- **Competitive Response** -Doing things that are unique , valuable , difficult to imitate , so we can achieve competitive advantage over rivals. Eg – Jio , One Plus
- **Collective Response** – Create Joint venture , strategic alliances to manage uncertainty and perform tasks that are too costly or complicated for single organization to perform . Eg – Idea & Vodafone

# Components of Business Environment

- Internal – It consists of people within the organization , including management , current employees, & corporate culture . It is conditions , people , events , factors within an organization that influence its activities & choices , particularly behaviour of employees
- External – It includes Macro & Micro Environment

# Components of External Environment

## MICRO

- They can be controlled by organization
- They have direct impact on organization
- Narrow in scope

## MACRO

- They cannot be controlled by organization
- They have indirect impact on organization
- Broad in scope



# Elements of Micro Environment

- **MICRO-CS**
- **Market** – Cost structure , Price sensitivity of market
- **Intermediaries** – Influence considerable influence on Business organization.
- **Competitors** – Direct & Indirect
- **Organization** (BOD , Owners , Employees)
- **Consumers / Customers** – Create & Retain customers  
. Consumer occupies central position in market
- **Suppliers** – With Bargaining power , they will affect cost of the industry

# Elements of Macro Environment

- **Deepika Padukone Aur Sachin Tendulkar  
Global Celebrity hai**
- Demographic
- Economic Environment
- Political - Legal
- Socio-cultural
- Technological
- Global

# Demographic Environment

- It includes general age profile , sex ratio , education , growth rate which will affect the business
- Population Size
- Ethnic Mix
- Geographical Distribution
- Income Distribution

# Economic Systems

- It includes nature and direction of economy in which company compete.
  
- **Factors Affect the Economic Environment**
  1. Capitalism . Eg - USA
  2. Socialism . Eg – China , Northkorea
  3. Mixed Economy Eg - India
  
- **Economic Policies also affect like**
  1. Industrial Policy
  2. Fiscal Policy – Public Expenditure and taxation
  3. Monetary Policy – Smooth supply of credit
  4. Foreign Investment Policy
  5. Export –Import Policy(Exim)

# Political Legal Environment

- It is similar to all enterprises . It includes general state of policy development , degree of politicization , economic issues , level of political morality , law and order , political ideology. The 3 elements are (LPG) :
- Legal
- Political
- Government

# Socio Cultural Environment

- It includes social traditions , values & beliefs , level and standards of literacy & education , ethical standards , state of society , extent of social stratification , conflict & cohesiveness and so forth . Eg – Mcdonalds ,

# Technology Environment

- Technology has changed the way people communicate with advent of internet and telecommunication
- It has changed way business operates
- It can become both threat & opportunity .If business can take advantage of technology , it can bring strategic advantage
- Technology & Business are interrelated & interdependent

# Global Environment

- Due to Economic reforms , Indian Firms are also out to see beyond physical boundaries of the country . They are acquiring business in different countries
- Companies are now interested in globalising



# PESTLE ANALYSIS (Macro Factors)

- Political
- Economic
- Social-cultural
- Technological
- Legal
- Environmental

# Strategic Responses to Environment (LCD)

- **Least Resistance** – they will never resist to anything and directly change
- **Proceed with caution** – they will change , but analyze all gains and losses and then change as per the need
- **Dynamic response** – They know the environment , and convert threat into opportunities and knows of other threats also

# Framework to Understand Environment Influences

- Firstly we need to understand nature of organization & how it is static , dynamic , simple or complex
- Secondly we will identify which things of the environment will affect our business
- Final step is to focus towards those things which will immediate affect the organization .  
Eg – competitive arena

# Purpose of Environmental Analysis

- First it should provide understanding of current & potential changes take place in environment . Eg – Airlines Industry , Hotel Industry
- Second it provides us inputs for strategic decision making
- Third it will facilitate strategic thinking in organization by new ideas

# Environment Scanning

- While Environment scanning , we need to know of Events , Trends & Issues (Eg – Matches , Navratri)
- **Events** are specific occurrences taking place in the different environmental sectors
- **Trends** are grouping of similar or related events that tend to move in given direction
- **Issues** are concerns in response to events and trends
- **Expectations** are demands made by interested groups for solving the Issues

# SWOT Analysis

- Any Business while making strategy has to consider SWOT Analysis

## COMPONENTS OF BUSINESS ENVIRONMENT

INTERNAL		EXTERNAL	
STRENGTH	WEAKNESS	OPPORTUNITY	THREAT
Inherent Capability of Organization	Inherent Weakness of Organization	Favourable External Environment	Unfavourable External Environment



