



# UNIT 7

## BUSINESS ENVIRONMENT



### 19 CHAPTER

### ENVIRONMENTAL FACTORS

தெரிந்த இனத்தொடு தேர்ந்தெண்ணிச் செய்வார்க்கு  
அரும்பொருள் யாதொன்றும் இல்.

—குறள் 462



#### COUPLET

There is nothing too difficult to (be attained by) those who, before they act, reflect well themselves, and thoroughly consider (the matter) with chosen friends.



#### Learning Objectives

To enable the students to understand the

- Meaning of Business environment
- differences between internal and external business environment
- various controllable and uncontrollable factors affecting business
- examples that impact economic, socio-cultural, political and legal, geo-physical and technological factors of business

#### Chapter Synopsis

- 19.01 Meaning and Definition of Business Environment
- 19.02 Types of Business Environment
  - 19.02.01 Internal Environment
  - 19.02.02 External environment:
  - 19.02.03 Micro Environment;
  - 19.02.04 Macro Environment:
- 19.03 Future environment of business-VUCA
- 19.04 Corporate Governance
- 19.05 GST- Goods and Services Tax

A business is an integral part of the social system. The sum total of all factors both internal and external which has an impact on the functioning of a business can be termed as business environment. The aggregate of all factors, forces and institutions which are external to and beyond the control of an individual business enterprise but which exercises a significant influence on the functioning and growth of individual enterprises business environment.

It is dynamic in nature since it keeps changing. Therefore any strategic decision relating to a business can be taken only after scanning the environment for a SWOT analysis of the strengths, weaknesses, opportunities and threats. The internal environment which is controllable yields the strengths and weaknesses of an organisation while the external environment which is uncontrollable relates to two factors namely opportunities and threats. The understanding of business environment is essential for taking important decisions, and ensuring success.

## 19.01 Meaning and Definition of Business Environment

According to Bayard O 'Wheeler Business environment is *"the total of all things external to firms and industries which affect their organisation and operations"*.

A business in order to remain successful and competitive has to adapt to the constantly changing environment. The formulation of strategic decisions, policies and programmes requires an understanding of the environmental factors impacting the business. Therefore scanning of the environment for identifying threats and opportunities is essential for any business.

The significance of understanding the business environment is as follows:

- i. **Helps in formulating Strategy and future planning:** The data relating to the business environment are used as a record for devising important business strategies and to plan for the future development of the business concerned.
- ii. **Enables to identify the opportunities available:** The analysis of business environment helps a business to identify new opportunities. For example in the 80's Dr Reddy identified the need for quality service in healthcare and started Apollo Hospitals. He was a pioneer in corporate hospital care and thus enjoys the first ever advantage in offering world class medical facilities in India.
- iii. **Environment scanning:** It helps the firms to identify threats which may affect the business. Thus measures can be taken by the firm to overcome the threats.
- iv. **Business aids:** It stimulates systematic monitoring of environment which helps business in taking steps to cope with the rapid changes
- v. **Public image:** Environmental analysis helps a business to enhance its image by being sensitive and quickly responding to the

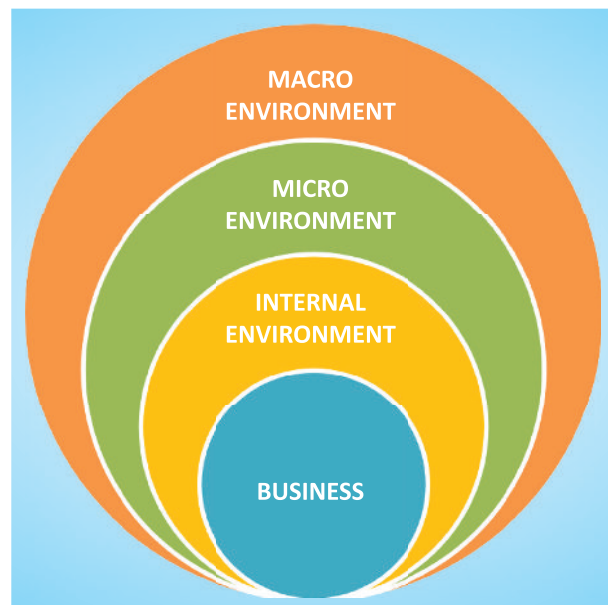
changing environment and needs of people. Example large scale Retail stores like Aditya Birla's "More" are now providing home delivery services.

For Example Japanese camera film making company Fuji Films which had global presence for over 50 years was affected with the advent of digital cameras.

## 19.02 Types of Business Environment

The Business Environment can be classified as follows:

- I) **Internal Environment**
- II) **External Environment**



**Internal environment** refers to those factors within an organisation e.g Policies and programmes, organisational structure, employees, financial and physical resources. These factors can be changed or altered and hence are known as controllable factors.

**External environment** refers to those factors outside the business. These factors by and large are beyond the control of a business and hence uncontrollable. e.g economic, political and socio-cultural factors.

## 19.02.01 Internal Environment

### Internal Environment Factors



The major internal factors affecting business decisions are

- i. **Values system:** The values of the founder/owner of the business, percolates down to the entire organisation and has a profound effect on the organisation. The success of an organisation depends upon the sharing of value system by all members. External business associates like suppliers and distributors consider the value system practised by an organisation with strong culture of ethical standards and values.
- ii. **Vision and objectives:** The vision and objectives of a business guides its operations and strategic decisions. Example 'Amul the taste of India' Gujarat Co-operative Milk Marketing Federation GCMMF

Two Indian companies TATA Steel and WIPRO have been named as the world's most ethical companies by American Think tank Ethisphere Institute. Infosys, Murugappa group, TVS group

Vision: Liberate our farmers from economic oppression and lead them to prosperity.

iii. **Management structure and nature:**

The structure of management/board and their style of functioning, the level of professionalism of management, the composition of the board are the various factors which affects the decision making. Since the board is the highest decision making authority, its composition, degree of professionalism and style of operations plays a very critical role in the growth and development in an organisation.

- iv. **Internal power relations:** This refers to the internal power relations that exist in an organisation. The relations among board members, between board members and the CEO and the level of support enjoyed by the board from its' stakeholders namely employees and shareholders are significant factors which affects decision making and its implementation in an organisation.

- v. **Human resources:** The success of an enterprise is solely dependent on its manpower. Therefore the quality, skill competency, right attitude and commitment of its human resources is essential for the success of an organisation.

- vi. **Company image:** The image of an organisation plays an important role in introducing new products, selecting agents and dealers for distribution, forging alliances with suppliers, expanding and entering new markets both domestic and international, raising finance etc.

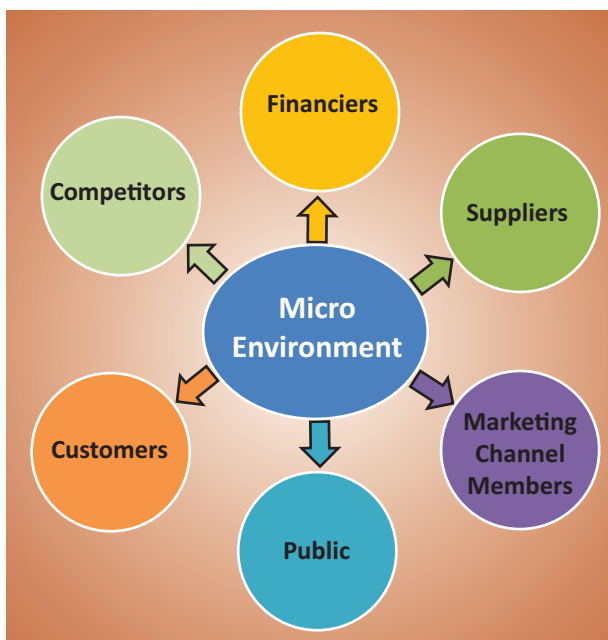
- vii. **Other factors:** The firm's ability to innovate reflected by its research and development, the strength of its financial position and the capital structure, the efficiency in managing the marketing and distribution network, and the physical resources like plant, building technology are the other major factors on which affects the success of a business.

### 19.02.02 External environment

All factors outside the business which have a bearing on the working of a business can be termed as the external environment. This is subdivided into micro or task environment and macro or general environment.

### 19.02.03 Micro Environment

#### Micro Environment Factors



This refers to those factors which are in the immediate environment of a business affecting its performance. These include the following:

- i) **Financiers:** The financiers of a business which includes the debenture holders and financial institutions play a significant part in the running of a business. Their financial capability, policies strategies, attitude towards risk and ability to give non-financial assistance are all important to a business.
- ii) **Suppliers:** In any organisation the suppliers of raw materials and other inputs play a very vital role. Timely procurement of materials from suppliers enables continuity in production and reduces the cost of maintaining stock/inventory. Organisations generally obtain supplies from a panel of

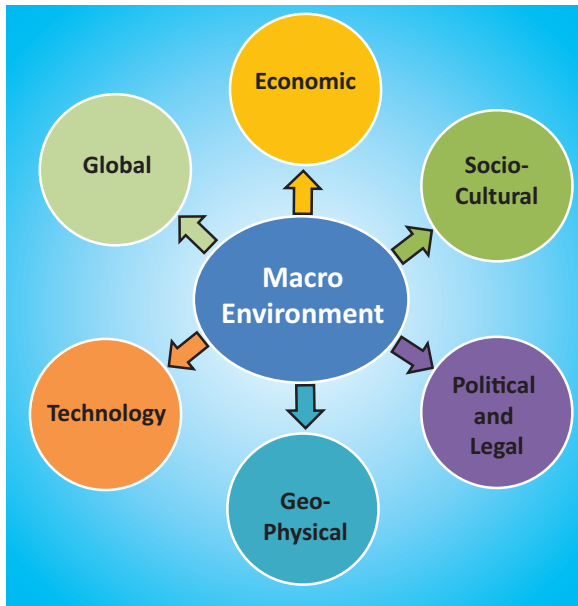
suppliers instead of relying on a single source. Organisations have realised the importance of nurturing and maintaining good relationship with the suppliers.

- iii) **Marketing Channel members:** The marketing inter-mediaries serve as a connecting link between the business and its customers. The middlemen like dealers, wholesalers and retailers ensure transfer of product to customers. physical distribution is facilitated by transporters, and warehouses help in storing goods. Market research agencies help the firm to understand the needs of the customers while advertising agencies help in promoting the products and services. Insurance firm is another marketing intermediary which provides coverage for risk in business.
- iv) **Public:** This refers to any group like media group, citizen action group and local public which has an impact on the business. The public group has the ability to make or mar a business. Many companies had to face closure due to actions by local public.
- v) **Customers:** The aim of any business is to satisfy the needs of its customers. The customer is the king and the fulcrum around which the business revolves. Hence it is essential for any business to understand the needs of its varied customers like individuals, retailers, wholesalers, industries and government sector. Customer relationship management aims at creating and sustaining cordial relations with customers.
- vi) **Competitors:** All organisations face competition at all levels local, national and global. Competitors may be for the same product or for similar products. It is important for a business to understand its competitors and modify their business strategies in the face of competition.



For example, the closure of Sterlite Copper factory in Thoothukudi due to protests by environment protection group in 2018.

#### 19.02.04 Macro Environment: Macro Environment Factors



This is the general or overall environment in which the business operates. The success of a business is dependent on its ability to adapt to the macro environment, since these are uncontrollable factors. They offer enormous opportunities to business and also poses serious threats to business. The general or remote environment factors are as follows;

- I. **Economic environment:** The business is an integral part of the economic system prevalent in a nation. The multiple variables in the macro environment system which has a bearing on a business include
  - 1) **The nature of economy based on the stage of development:** The countries across the globe can be categorised on the basis of growth and per capita income as developed nations, developing nations and under developed nations. The USA, Japan, Germany, Canada and Australia developed economies generally have high degree of technological advancement, very strong and

robust industrial base, and high standard of living. Many of these developed nations have successfully integrated the computer based technologies with their existing business. Developing nations like India, China, Brazil Mexico are middle income economies are characterised by low to moderate industrial growth, the inequality in the distribution of income, high population, a low standard of living and slow absorption of technology. Under developed nations are low income economies with a very low degree of technology adoption and a very poor standard of living.

- 2) **The nature of economic system:** The economic systems can be classified as Capitalistic, Socialistic and Mixed economy. Capitalistic economy is a free enterprise market where individual ownership of wealth is predominant. Socialistic economy is a state controlled with a lot of restrictions on private sector. Mixed economy is a combination of both state owned and private sector ownership.
- 3) **The economic policies of a nation:** Monetary policy, fiscal policy, Export-import policy, Industrial policy Trade policy, Foreign exchange policy etc are part of the economic environment.
- 4) **Economic indices:** The Economic indices like GDP, GNP national income, per-capita income, balance of payments, rate of savings and investments etc. form an important part of economic environment.
- 5) **Development of financial market:** The organisation and development of money market, capital market securities market and, the banking system has a greater impact.
- 6) **Economic structure:** The Economic structure includes capital formation, investment pattern, composition of trade balance, occupational distribution of workforce, and the structure of national output.



**II. Socio-Cultural environment** - Business is a part of the society. Social environment refers to the sum total of factors of the society in which the business is located. Social and cultural environment of society affects the business. It is dynamic and includes the behaviour of individuals, the role and importance of family, customs, traditions, beliefs and values, religion and languages, the ethical values. The literacy level, and the social attitudes of the people of the society. The socio-cultural environment also includes the following;

- 1) The social institutions and groups
- 2) Family structure prevalent in the society
- 3) Role of marriage as an institution
- 4) Caste system in the society
- 5) Customs, beliefs and values
- 6) Demographic factors which includes the size, composition, literacy level, distribution and mobility of the population
- 7) The lifestyle of people and their tastes, likes and preferences.

**III. Political and Legal environment** - The framework for running a business is given by the political and legal environment. The success of a business lies in its ability to adapt and sustain to political and legal changes. The legislative, executive and judiciary are the three political institutions which directs and influences a business. The major elements of the legal and political environment are

- 1) Political stability is reflected by the following parameters like the election system, the law and order situation, the role and structure of Military and Police force, the declaration of President's rule, civil war etc
- 2) Political organisation refers to the ideology and philosophy of the political parties, the government, the role and degree of authority of bureaucracy, the level of political consciousness among citizens and

the funding of political parties by business houses and the clout wielded by them.

- 3) The image of the leader and the country in the inter-national arena.
- 4) Legal framework of business and their degree of flexibility.
- 5) The constitution of the nation.
- 6) The Foreign policy of the country with special reference to tariffs and free trade.

**IV. Geo-physical environment** - The natural, geographical and ecological factors have a bearing on the business. These are as follows;

- 1) the availability of natural resources like minerals oil .etc, since setting up of industries requires availability of raw materials
- 2) the weather and climatic conditions and availability of water and other natural resources is essential for the agricultural sector .
- 3) topographical factors like the terrain impacts type of business since the demand and consumption pattern may vary in these regions. E.g in the the hilly region mode of transport will have to be modified to tackle the terrain.
- 4) ecological factors are now gaining momentum, since the governments across the globe are framing stringent policies for ecological conservation and prevention of pollution. The ban on use of plastic bags imposed by the Ooty corporation is an example.
- 5) location of certain industries is influenced by the geographical conditions For e.g In Tamilnadu the concentration of cotton textile industry in Coimbatore is due to conducive weather conditions. .
- 6) availability of natural harbours and port facilities for transporting goods .

**V. Technological environment** - The development in the IT and telecommunications has created a global market. Technology is widely



used in conducting market research for understanding the special needs of the customer. Digital and social media are used as a platform for advertising and promoting the products/services. Data-mining and data analytics are used to know the customer better. Technology is used in managing inventory, storing goods in warehouses, in distributing goods and in receiving payment. This dynamic environment also includes the following ;

- 1) the level of technology available within the country
- 2) rate of change in technology
- 3) technology adopted by competitors
- 4) technological obsolescence

**VI. Global environment** - With the rapid growth of technology the physical boundaries are fast disappearing and the new global market is emerging. The international environmental factors which affects a business are as follows;

- 1) Differences in language and culture
- 2) Differences in currencies
- 3) Differences in norms and practices
- 4) Differences in tastes and preferences of people
- 5) The tax structure relating to import and export.
- 6) Differences in the degree of adoption of technology.

### 19.03 Future environment of business-VUCA

The future environment of business in this age of rapid technological advancement has been captured aptly in the acronym VUCA – volatility, uncertainty, complexity and ambiguity, developed in the late 80's by the U.S military. Every business has to take strategic decisions. The dynamic ever changing environment, the unpredictability of various factors, the multiplicity of forces affecting

business and the lack of clarity are the variables which affects business.

It is now important for every business to meet the challenges posed by the environment in order to remain competitive. The uncertain conditions and situations requires a firm to be prepared to face the volatility by planning. The presence of complex variables impacting business should be understood and alternative measures for solving the issues should be developed. In an VUCA environment a firm has to be forward looking anticipating the change, adaptability will remain essential for the success of any business in an ambiguous, uncertain environment.

### 19.04 Corporate Governance

Corporate governance is a set of rules and policies which governs a company. It provides a frame work for managing a company and achieving its objectives. It gives guidelines for internal control, performance measurement and corporate disclosure. Corporate governance lays down the rules and responsibilities of the stakeholders of a company primarily the shareholders, the directors and the management. The role of board of directors is very important in corporate governance. It is the board that provides the guidelines for the company and its other stakeholders including employees, customers, suppliers and financiers. Corporate governance is based on the four fundamental pillars of fairness, transparency, accountability and responsibility.

In India the Kumara Mangalam Birla Committee 2000, Narayana Murthy Committee 2003 , Adi Godrej Committee 2008, and presently Uday Kotak Committee were constituted to give a comprehensive framework for Corporate Governance. The present corporate governance norms, included in the Companies Act 2013, SEBI listing regulations and Clause 49 of the listing agreement are the outcome of discussion by these committees.



The Indian Corporate Governance framework requires listed companies

- i) to have independent directors on the board; At least one third of the directors have to be independent directors.
- ii) to have at least one independent woman director ,
- iii) to disclose all deals and payments to related parties.
- iv) to disclose details of managerial compensation
- v) CEO and CFO to sign stating that the governance norms have been complied with in the financial statements.

It can thus be concluded that the presence of active governance norms in a company enhances the image of the company, increases investor confidence and safeguards the interests of the shareholders and the society. The new norms laid down in Companies Act 2013 by bringing in transparency in corporates have raised the governing standards of Indian companies as per International Standards.

### 19.05 GST Goods and Services Tax

GST is the indirect tax levied on goods and services across the country. It is a **comprehensive**, multi-stage, destination-based tax that is levied on every value addition.

There are 3 taxes applicable under this system.

- i) **CGST**: Collected by the Central Government on an intra-state sale (Eg: transaction happening in TamilNadu)
- ii) **SGST**: Collected by the State Government on an intra-state sale (Eg: transaction happening within TamilNadu)
- iii) **IGST**: Collected by the Central Government for inter-state sale (Eg: Punjab to Tamil Nadu)

Goods & Services Tax Council is a constitutional body for making recommendations to the Union and State Government on issues related to Goods and Service Tax. The GST Council is chaired by the Union Finance Minister and other members are the Union State Minister of Revenue or Finance and Ministers in-charge of Finance or Taxation of all the States.

The Goods and Services Tax Council shall make recommendations to the Union and the States on

- a. the taxes, cesses and surcharges levied by the Union, the States and the local bodies which may be subsumed in the goods and services tax
- b. the goods and services that may be subjected to, or exempted from the goods and services tax
- c. model Goods and Services Tax Laws, principles of levy, apportionment of Goods and Services Tax levied on supplies in the course of inter-State trade or commerce under article 269A and the principles that govern the place of supply
- d. the threshold limit of turnover below which goods and services may be exempted from goods and services tax
- e. the rates including floor rates with bands of goods and services tax
- f. any special rate or rates for a specified period, to raise additional resources during any natural calamity or disaster
- g. special provision with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand and
- h. any other matter relating to the goods and services tax, as the Council may decide.

### Purpose

At the Tata group we are committed to improving the quality of life of the communities we serve. We do this by striving for leadership



and global competitiveness in the business sectors in which we operate.

Our practice of returning to society what we earn evokes trust among consumers, employees, shareholders and the community. We are committed to protecting this heritage of leadership with trust through the manner in which we conduct our business.

### Core values

Tata has always been values-driven. These values continue to direct the growth and business of Tata companies. The five core Tata values underpinning the way we do business are:

**Integrity:** We will be fair, honest, transparent and ethical in our conduct; everything we do must stand the test of public scrutiny.

**Excellence:** We will be passionate about achieving the highest standards of quality, always promoting meritocracy.

**Unity:** We will invest in our people and partners, enable continuous learning, and build caring and collaborative relationships based on trust and mutual respect.

**Responsibility:** We will integrate environmental and social principles in our businesses, ensuring that what comes from the people goes back to the people many times over.

**Pioneering:** We will be bold and agile, courageously taking on challenges, using deep customer insight to develop innovative solutions.

**Mission:** To improve the quality of life of the communities we serve globally through long-term stakeholder value creation based on Leadership with Trust.

#### Key Words

Micro Environment    Macro Environment  
Capitalistic Economy    Socialistic Economy  
Mixed economy    Core Values



#### For Future learning

- 1) Identify top five Indian companies and understand their vision, mission and core values.
- 2) Examine how mobile phones are replacing the existing technologies- Radio, Music system, Camera etc.



#### Case Study



#### Dr. Varghese Kurien – Pioneer of White revolution in India

**Amul meant different things to different people:**

To a Milk Producer	A life enriching experience
To a Consumer	Assurance of having wholesome milk
To a Mother	A reliable source of nourishment for her child
To the Country	Rural Development and Self Reliance



#### Case Study

#### Apollo Hospitals

##### Our Vision

Apollo's vision for the next phase of development is to 'Touch a Billion Lives'.

##### Our Mission

"Our mission is to bring healthcare of International standards within the reach of every individual. We are committed to the achievement and maintenance of excellence in education, research and healthcare for the benefit of humanity".

The TVS Group traces its origins to a rural transport service, founded in 1911 in Tamil Nadu, India. Today, this renowned business conglomerate remains faithful to its core ideals of trust, values, service and ethics.



## Exercise



### I. Choose the Correct Answers:

1. VUCA stands for \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_.

- (a) Volatility, Uncertainty, Complexity and Ambiguity
- (b) Value, Unavoidable, Company and Authority
- (c) Volatility, Uncontrollable, Company and Auction
- (d) All of the above

2. GST stands for \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_.

- (a) Goods and Social Tax
- (b) Goods and Service Tax
- (c) Goods and Sales Tax
- (d) Goods and Salary Tax

3. Factors within an organisation constitutes \_\_\_\_\_ environment.

- (a) Internal Thinker
- (b) External Thinker
- (c) Fellow human beings
- (d) All of the above

4. Macro Environment of business is an \_\_\_\_\_ factor.

- (a) Uncontrollable      (b) Controllable
- (c) Manageable        (d) Immanageable

5. The two major types of business environment are \_\_\_\_\_ and \_\_\_\_\_.

- (a) Positive and Negative
- (b) Internal and External
- (c) Good and Bad
- (d) Allowable and Unallowable

### Answers:

1	a	2	b	3	a	4	a	5	b
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### II. Very Short Answer Questions:

1. What is internal environment?
2. Give the meaning of corporate governance.
3. What is GST?
4. Expand VUCA.

### III. Short Answer Questions:

1. What are the political environment factors? (any 3)
2. Write about any three internal environmental factors of business.
3. What do you know about Technological environment?

### IV. Long Answer Questions:

1. Discuss the role of macro environment of business. (any 5)
2. Explain the micro environmental factors of business. (any 5)