BUSINESS ENVIRONMENT

UNIT - 1

BUSINESS

- Business is an economic activity that involves the exchange, purchase, sale or production of goods and services with a motive to earn profits and satisfy the needs of customers. Businesses can be both profit or non-profit organizations that function to gain profits or achieve a social cause respectively.
- The main aim of business is to satisfy the needs of customers. The success of every business depends on adapting itself to the environment within which it functions.

BUSINESS

- For example, with changes in the government policies, the business needs to adapt itself with the new policies.
- Similarly, any technological advancement may render the existing products obsolete, such as the introduction of smartphones has replaced the telephone to a greater extent.

NATURE/CHARACTERISTICS OF BUSINESS

(1) An Economic Activity	•A business is an economic activity which includes the purchase & sale of goods or rendering of services to earn money. •It is not concerned with the achievement of social and emotional objectives. Example: Wholesaler sell goods to the retailers and retailers sell goods to the customers.

NATURE/CHARACTERISTICS OF BUSINESS

(2)Manufacturing or Procurement of Services and Goods	•Before offering goods to the consumer for consumption it should be manufactured or procured by businesses. •Business enterprise converts the raw material into finished goods. •Organisations also procure finished goods& services from the producers to meet the needs of the customers in the market. •Goods can be a **Consumer good** like sugar, pen, ghee, etc. **capital goods** include machinery, furniture, **services** like transportation, banking, etc. Example: Individual retailer buys the toffees from wholesalers in a specific quantity and sells it to the ultimate consumer.

NATURE/CHARACTERISTICS OF BUSINESS

(3)Exchange or Sale of Goods and Services for the Satisfaction of Human Needs	•Every business activity includes an exchange or transfer of services and goods to earn value. •Producing goods for the goal of personal consumption is not included in business activity. •So, there should be the process of sale or exchange of goods or services exits among the seller and the buyer. Example: A lady who bakes pastries and cakes at home and sells it to the pastry shop is a business activity.

NATURE/CHARACTERISTICS OF BUSINESS

(4) Dealings With Goods and Services on a Daily Basis	•Every business, rendering either services or goods should deal on a daily basis. •A one-time sale is not considered a business activity. Example: If a person sells his old car through OLX even at a profit will not be considered as a business activity. But if he is engaged in regularly trading of cars at his showroom will be considered as business activity.

NATURE/CHARACTERISTICS OF BUSINESS

(5) Profit Earning	•No business can last for long, without making a profit. •The purpose to conduct the business is to earn profits and minimize the cost. Example: A business house tries to reduce the cost of production and the cost of raw material to earn high profits.
(6) Uncertainty of Return	•The possibility of earning profit or loss is very uncertain and can't be anticipated by the entrepreneur. •Hence, no business can totally do away with risks.

OBJECTIVES OF BUSINESS

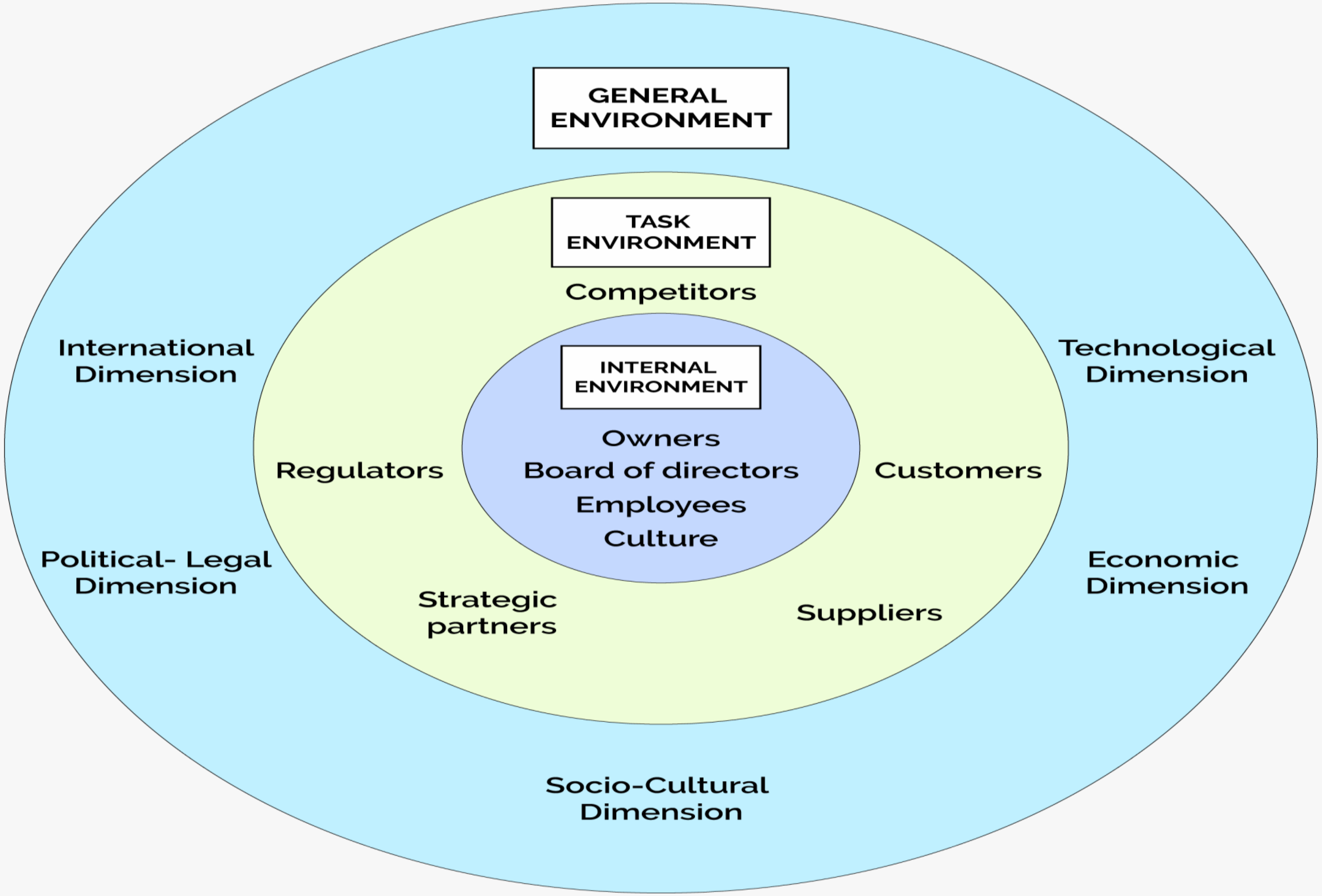
A-Economic	B-Human	C-Social
1. Profit earning 2. Production of goods 3. Creating Markets 4. Technological improvements 5. entrepreneurship	1. Welfare of employees 2. Satisfaction of Consumers 3. Satisfaction of shareholders 4. Helpful to government 5. Utilising resource properly	1. Availability of goods 2. Supply of Quality Goods 3. Co-operation with government 4. Creation of employment


WHAT IS
BUSINESS ENVIRONMENT?
DEFINITION, TYPES AND BENEFITS

BUSINESS ENVIRONMENT

- The concept of a business environment encompasses the entirety of factors, both internal and external, that exert an influence on a business and its operations.
- Internal factors refer to components within the company itself, while external factors comprise external causes that impact the functioning of an organisation.
- The business environment encompasses a wide range of elements, including individuals, resources, stakeholders, institutions, regulations, and market forces that exist in the vicinity of the organisation.

Elements of Organizational Environment



Components of Business Environment

BUSINESS ENVIRONMENT

Internal Environment
- Promoters'/shareholders' values
- Mission/Objectives
- Management structure/ nature
- Internal power relationship
- Co. image/Brand equity
- Physical assets/facilities
- R&D and technological capabilities
- Human resources
- Marketing capabilities

External Environment

Micro (Task/ Operating) Environment
- Customers
- Suppliers
- Competitors
- Publics
- Financiers
- Marketing intermediaries

Macro (General / Remote) Environment
- Economic factors
- Social / Cultural factors
- Demographic factors
- Political / Govt. factors
- Natural factors
- Technological factors
- Global factors

TYPES OF BUSINESS ENVIRONMENT

- The business environment consists of two types – internal environment and external environment.
- Internal Environment
- The internal environment of a company comprises its own controllable factors, shaping the organization's inner workings and overall culture. Let's delve into the components that form this vital aspect:

1. **Organizational Structure:** This defines how the company's activities are directed, clarifying roles and responsibilities. It outlines the hierarchy, how tasks are assigned, and how information flows across different levels.
2. **Corporate Culture:** The powerful fabric of shared values and norms among employees that sets the tone for the company. It shapes behaviors, attitudes, and the overall work atmosphere, fostering a sense of unity.
3. **Human Resources:** The heart of the organization, consisting of employees and personnel. Their skills, dedication, and effectiveness drive the company's success and determine its competitive edge.
4. **Vision, Mission, and Objectives:** The guiding compass that defines the company's purpose, aspirations, and future goals. It helps align efforts toward a common direction.
5. **Physical Resources and Technology:** Tangible assets like facilities and equipment, coupled with technical capabilities, influence the company's competitive capacity and its ability to adapt to changing demands

EXTERNAL ENVIRONMENT

- External Environment
- External environment refers to the environment outside of the organization. And, the factors of the external environment are uncontrollable to the management. The external environment also consists of two – macro and microenvironment.
- **Micro Environment:**
- The microenvironment of a company encompasses the immediate external factors that directly impact its day-to-day operations and performance. These factors are closely related to the company and can be influenced to some extent. Let’s explore its components:

1. **Customers:** The lifeblood of any business, customers are at the heart of the microenvironment. Understanding their needs, preferences, and expectations is crucial for crafting products and services that resonate with their desires.
2. **Competitors:** Rival players in the market who target a similar customer base and offer similar products or services. Analyzing competitor strategies and strengths helps companies fine-tune their own approach and gain a competitive edge.
3. **Suppliers:** Vital partners providing the necessary resources for the company’s operations. Building strong supplier relationships ensures a steady supply of goods and services, impacting the company’s efficiency and reliability.
4. **Intermediaries:** Entities facilitating the distribution and delivery of the company’s offerings to the end customers. Collaborating with effective intermediaries streamlines the distribution process and enhances market reach.
5. **Partners:** External entities like advertising agencies, market research organizations, and consultants who engage in business transactions and cater to customer needs. Partnering with the right entities can add value to the company’s offerings and expand its capabilities.
6. **Public:** Groups with a vested interest in the company’s operations or those who can influence its ability to serve customers. Public perception and sentiment can impact the company’s reputation and brand image.

EXTERNAL ENVIRONMENT

- **Macro Environment:**
- The macro environment of a company encompasses the broader external factors that influence its overall business landscape. The macro environment is also called PESTLE analysis. Let’s explore its components:

1. **Political Factors:** The impact of government policies, stability, and regulations on the business. Political decisions can influence market conditions, trade relations, and business operations.
2. **Economic Factors:** The overall economic conditions of the country or region in which the company operates. This includes factors like economic growth, inflation rates, exchange rates, and consumer spending patterns.
3. **Social Factors:** The demographic and societal aspects that shape consumer behavior and preferences. These factors include population trends, cultural attitudes, lifestyle choices, and social values.
4. **Technological Factors:** The advancements and innovations in technology that affect the industry and the company’s operations. Keeping up with technological changes is crucial for staying competitive.
5. **Legal Factors:** The legal framework governing business operations, including industry-specific regulations, labor laws, and intellectual property rights.
6. **Environmental Factors:** The impact of the natural environment and societal concerns about sustainability and eco-friendliness. This includes climate change, environmental regulations, and consumer demand for environmentally responsible products.

TYPES OF BUSINESS ORGANIZATIONS

- Partnership
- Corporation
- Sole proprietorship
- Cooperative
- Limited liability company

PARTNERSHIP

- You can classify a business partnership as either general or limited. General partnerships allow both partners to invest in a business with 100% responsibility for any business debts. They don't require a formal agreement.
- In comparison, limited partnerships require owners to file paperwork with the state and compose formal agreements that describe all of the important details of the partnership, such as who is responsible for certain debts.

PARTNERSHIP

Advantages	Disadvantages
• Easy to establish • Partners can combine expertise • Distributed workload	• Possibility for disagreements • Difficulty in transferring ownership • Full liability

SOLE PROPRIETORSHIP

- This popular form of business structure is the easiest to set up.
- Sole proprietorships have one owner who makes all of the business decisions, and there is no distinction between the business and the owner.

SOLE PROPRIETORSHIP

Advantages

- Total control of the business
- No public disclosure required
- Easy tax reporting
- Low start-up costs

Disadvantages

- Unlimited liability
- Lack of structure
- Difficulty in raising funds

COOPERATIVE

- A cooperative, or a co-op, is a private business, organization or farm that a group of individuals owns and runs to meet a common goal.
- These owners work together to operate the business, and they share the profits and other benefits.
- Most of the time, the members or part-owners of the cooperative also work for the business and use its services.

COOPERATIVE

Advantages	Disadvantages
Greater funding options	Raising capital
Democratic structure	Lack of accountability
Less disruption	Difficulty in raising funds

LIMITED LIABILITY COMPANY

- The most common form of business structure for small businesses is a limited liability company, or LLC, which is defined as a separate legal entity and may have an unlimited amount of owners.
- They are typically taxed as a sole proprietorship and require insurance in case of a lawsuit.
- This form of business is a hybrid of other forms because it has some characteristics of a corporation as well as a partnership, so its structure is more flexible.

LIMITED LIABILITY COMPANY

Advantages	Disadvantages
• Limited liability	• Associated costs
• Pass-through taxation	• Separate records
• Flexible management	• Taxes

THANK YOU