BUSINESS ENVIRONMENT

B.O. Wheeler defines business environment as "It is the total of all things external to firms and individuals which affect their organisation and operations".

Keith Davis defines business environment as "Environment of the business means the aggregate of all conditions, events and influences that surround and affect it".

FEATURES OF BUSINESS ENVIRONMENT

1) Environment is an inseparable part of business
2) Environment regulates the scope of the business
3) Environment is multifaceted
4) Environment is complex
5) Internal and external factors
6) Environment and planning:

NEEDS AND IMPORTANCES

1) **Identify the prospects and problems**
2) **Flexibility**
3) **Ecological balance**
4) **Optimum use of resources**
5) **Effective planning**
6) **To formulate strategy**

COMPONENTS/ELEMENTS OF BUSINESS ENVIRONMENT

A) Internal Environment:

1) Mission and Objectives
2) Human Resources
3) Financial Resources
4) Labour-management relations
5) Plans and policies
6) Physical resources
7) Corporate image
8) R&D

B) External Environment

1) Micro environment:

a) The Customers - needs, wants, preferences, behaviour, attitude etc.

b) The Competitors - prices, products, promotion, and distribution strategies etc.

c) The Suppliers - price and quality of materials/machines etc.

d) Channel Intermediaries - number, selection, status, availability of fund and other resources etc.

e) Society - financial institutions & banks, media, government, citizen-action groups, general public.

2) ***Macro Environment***

a) **Demographic Environment**: Science which studies human population with reference to its size, distribution, growth, age and sex composition, rate of literacy, language etc. These factors affect the demand for goods and services, and their study helps to frame proper production and marketing strategies.

b) **Economic Environment**: It consists of economic conditions in the market- demand and supply, level of income, level of saving, extent of completion etc. Economic policies- industrial policy, monitory policy, import-export policy, tax policy etc. and Economic system- capitalist economy, communist economy, mixed economy.

c) **Political Environment**: It consists of government agencies, political parties and pressure groups that influence and control various organisations, style of leadership etc.

d) **Social and Cultural Environment**: Social environment is supplemented by cultural environment. Culture involved knowledge, belief, morals, laws, customs, and other such elements, which are acquired by individuals and groups in society.

2) <u>Macro Environment</u>

e) **Natural Environment**: It relates to natural resources like land, water, minerals, etc. Business while using natural resources should understand two factors like erosion of natural resources and pollution. They may search for alternative resources such as solar energy, recycling waste, installing anti-pollution devices etc.

f) **Technological Environment**: Business firms should make efforts to adapt and adjust to technological developments so as to survive and succeed in the competitive business environment.

g) **Legal Environment**: It includes laws defining and protecting fundamental rights of individuals and organisation. Business needs legal support to protect firms from unfair competition, protect consumers from unfair business practices, and protect interest of various members of stakeholders in the society.

h) **International Environment**: It is an outcome of political and economic conditions in the internal markets. Factors like war, civil disturbances, political instability, changes in trade policies etc.

ENVIRONMENTAL SCANNING

Environmental scanning or analysis is the process through which an organisation monitors and comprehends various environmental factors and determines the opportunities and threats that are a result of environments. To sustain competitive advantage, the company must also respond to the information gathers from such scanning by altering the strategies and plans when need arises.

Environmental analysis consists of four logical steps:

1) **Scanning**: This involves a thorough study of all environmental factors and their interactions to find out any future signs of environmental change, detect current environmental change.

2) **Monitoring**: It involves keeping a close watch over environmental happenings. Environmental scanning reveals certain signals or indicators during monitoring there are clear evidences whether certain events are really happening, and so vague and unsure data becomes clear and precise.

3) **Forecasting:** Scanning and monitoring gives us an idea of what has already taken place and what is happening. Forecasting is concerned with making predictions for the future regarding environmental change.

4) **Assessment:** It refers to identification and evaluating the effects of expected and projected environmental change on the strategic management of the organisation. It tells us what are the issues that environment is going to put forward and what are its effects.

There are three methods of scanning business environment

1) **Ad-hoc Scanning:** Short-term, infrequent examinations usually initiated by the crisis.

2) **Regular scanning:** studies done of a regular schedule (one year)

3) **Continuous scanning:** continuous structured data collection and processing on a broad range of environmental factors.

An analysis of business environment helps to identify strength, weaknesses, opportunities, and threats. The **SWOT** analysis is necessary for the survival and growth of the organisation.

Strength: is in inherent capability of the organisation which it can use to gain strategic advantage over its competitors.

Weakness: is an inherent limitation of the organisation which creates strategic disadvantages for it.

Opportunity: is a favourable condition in the organisation's environment which enables it to strengthen its position.

Threat: is an unfavourable condition in the organisation's environment which causes risk or damage to the organisation's position.

INTERNATIONAL TRADING ENVIRONMENT

WTO (World Trade Organization)

Came into existence in 1995 by replacing **GATT** (General Agreement on Tariffs & Trade) GATT was created to reduce global depression & to liberalise & regulate the world trade by reducing tariffs barriers. WTO member nations signed no.of agreements to promote international trade & development.

TRIPs: Trade related Intellectual Property Rights

TRIMs: Trade related Investment Measures

GATs: General Agreements on Trade & Services

AoA: Agreement on Agriculture

INTERNATIONAL TRADING ENVIRONMENT

TRADE BLOCS:

Trading blocs or economic integration is a group of countries which formed for increasing trade and development of member countries. The members removes or reduce trade barriers on member nations or may impose common barriers on non-members.

Major Trading Blocs:

EU (European Union / European Economic Community / European Common Market)

NAFTA (North American Free Trade Agreement) (1/1/1994)

ASEAN (Association of Southeast Asian Nations) (8/8/1967)

SAARC (South Asian Association for Regional Cooperation (December 1995)

SAPTA (South Asian Preferential Trade Agreement) (April 11,1993)

SAFTA (South Asian Free Trade Agreement(1/1/2006)