Chapter 1: Business Environment

Introduction

Each business organization operates in its unique environment. Environment influence businesses and also gets influenced by it. An organization does not exist in a vacuum. It exist is association with environment which provides him resources and imposes constrains and pressure on it. In order to survive and grow business, an organization muss adopts its environment which is constantly changing. Failure to adopt environmental changes is one of the major causes behind an organization failure. Environment variable excises significant influence on the emergence, functioning and development of an organization.

Today the need to consider environment is a more acute then ever. Today environment is turbulent having far reaching effect in an organization and their management No business can function free of interacting and influencing forces that are outside its periphery

Business

The term is wide and amenable to different usages

- **Work view**: business refers to the state of being busy for an individual, group, organization or society. The term is also interpreted as one's regular occupation or profession.
- **Entity view**: the term refers to a particular entity, company or corporation. It is also interpreted as a particular market sector such as the computer business..
- **Process view:** A business for our purposes can be any activity consisting of purchase, sale, manufacture, processing, and/or marketing of products and/or services.

Profit and business. or Does business exists for profits only ?

It is said that a business exists for profits. Profit, as a surplus of business, accrues to the owners. It is their share, just as wages are the share of workers. People invest in business for getting a return. It is a reward for risk taking, so far as the owners are concerned. As a motive, profit serves as a stimulant for business effort.

For business enterprises, profit is often regarded as the overall measure of performance. It is treated as a financial yardstick for measuring business efficiency and for evaluating managerial competence – how well the decisions and actions of managers turn out to be effective; how well they are able to combine and utilize resources and to sustain the enterprise as a going and a growing concern. profit provides needed sense of direction to and discipline business managers. Other things being equal, the higher the efficiency the greater is the level and volume of profit. Business efficiency is often expressed in terms of percentage of profit to sales volume, to capital employed, to market value of corporate shares and so on. Outside investors also equate profit with the degree of business efficiency and managerial competence and commit their funds in light of such equation and other related assessments.

Peter F Drucker has drawn some conclusions about what is a business that are useful for an understanding of the term. The **first thing** about a business is that it is created and managed by people. There will be a group of people who will take decisions that will determine whether an organization is going to prosper or decline, whether it will survive or will eventually perish (expire). This is true of every business. The **second** conclusion drawn is that the business cannot be explained in terms of profit. The economic criterion of maximising profits for a firm has little relevance in the present times. Profit maximization, in simple terms is selling at a higher price than the cost. Profit maximization has been qualified with the long-term perspective and has been modified to include development of wealth, to include several non-financial factors such as goodwill, societal factors, relations and so on.

In the view of overwhelming importance, some people consider profit motive supreme motive and all other objectives are subservient to profit. However need of profit is different from greed of profit. Profit must be earned though socially tenable (justifiable), legally valid means.

Objectives of Business

Business enterprises are economic system and they functions in a wider social system. A business has some purpose. A valid purpose of business is to create customers. It is for the businesses to create a customer or market. It is the customer who determines what a business is and what a business do. The customer is the foundation of business and keeps it in existence. In a broader view, business is that business exists and functions to attain for catering to the material needs and requirements of society, within the framework of general considerations of social interest and attain its economic goal. Thus business pursues multiple objectives rather then single objectives. Business is society's organ of economic expansion, growth and change.

Enterprises seek to balance these objectives in some appropriate manner. We may now elaborate some of the more important objectives of business.

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Survival
(i) Survival is a basic and implicit objective of every organizations. Every organization wants to perpetuate itself.
(ii) Survival is the will and anxiety to perpetuate into the future as long as possible i.e. as going concern.
(iii) While survival is a perennial objective, it gains more value and prominence during the initial stage of the establishment of the enterprise and during period of general economic adversity e.g. recession.
(iv) The ability to survive is a function of the (a) nature of ownership, (b) nature of business,(c) competence of management (d) general and industry conditions, (e)

financial strength of the enterprise an soon. (v) However, business and other enterprises are interested in more than mere survival.
Stability
(i) One of the most important objectives of business enterprises is stability. It is a prerequisite to grow. (ii) It is a cautious, conservative objective. (iii) A stable enterprise ensures to safeguard its existing interests and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimize utilization and returns on the resources committed in the business. (iv) In a sense, stability is a least expensive and risky objective in terms of managerial time and talent and other resources. (v) A stable and steady enterprise minimizes managerial tensions and demands less dynamism from managers. (vi) It faces of least resistance from competitors & public agencies in a hostile external environment.
Growth Or expansion
(i) This is a promising and popular objective which is equated with dynamism, vigour, promise and success. Most of the organization wants to grow and diversify. (ii) Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business. (iii) Enterprise growth may take one or more of the forms like - increase in assets, manufacturing facilities,- increase in sales volume in existing or through new products,- improvement in profits & market share, - increase in manpower employment,- acquisition of other enterprises and so on. (iv) Growth may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls. (v) It is an ambitious endeavor (try) which will lead to rich gains or may leads to heavy losses.
Efficiency or Productivity
(i) Efficiency is a very useful operational objective. All organization aims efficiency in their operations as it guides day to day efforts of an organization. (ii) Efficiency means best possible utilization of rationally choosing appropriate means to achieve their goals, doing things in the best possible manner and utilising resources in a most suitable combination to get highest productivity. **Efficiency : to do things right i.e. in best suited way, Effective: to do right or best things** (iii) Efficiency is an economic version of the technical objective of productivity-designing. it is expressed achieving suitable input output ratios of funds, resources, facilities and efforts.
Profitability

(i) Profit is defined as surplus of revenue over cost is the reward of taking risk. It serves as incentive for initiative, entrepreneurship and business efforts.

(ii) Profit also performs an objectives function of business. Business organization needs profit for survival and stability. Profit enables an business to absorb shock & sudden setbacks and to maintain productive capacity. Profit is also needed for feeding and maintaining innovation, growth and diversification.

(iii) Profit also promotes self reliance and autonomy of business. It is source of economic power, social prestige, and status to business. it is considered as a sign of sound corporate health and a hallmark of success. After a certain stage profit induces a business enterprise to behave in a socially responsible manner & assumed social obligation.

(iv) It is generally asserted that private enterprises are primarily motivated by the objective of profit. Some may go even further and emphasise that profit is the sole motive of business enterprises. All other objectives are facilitative objectives and are meant to be subservient to the profit motive. It is pointed out that private business enterprises are operated on behalf of and for the benefit of the owners who have assumed the business risk of investing their fund.

Other Objectives

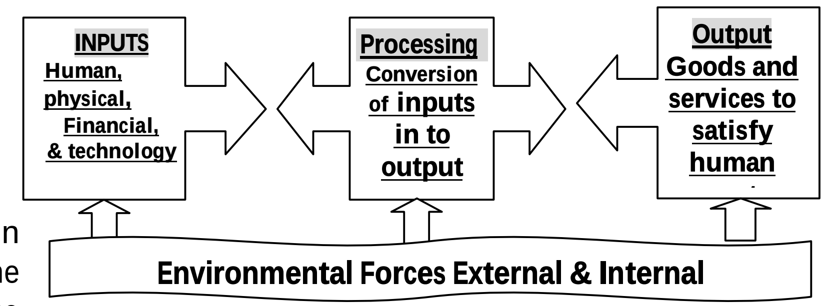
Enterprises pursue multiple objectives rather than a single objective. In general, we may identity a set of business objectives pursued by a large cross-section of enterprises. These relate to profitability, productive efficiency, growth, technological dynamism, stability, self-reliance, survival, competitive strength, customer service, financial solvency, product quality, diversification, employee satisfaction and welfare, and so on.

ENVIRONMENTAL INFLUENCES ON BUSINESS

All living creatures including human beings live within an environment. Apart from the natural environment, environment of humans include family, friends, peers and neighbours. It also includes man-made structures such as buildings, furniture, roads and other physical infrastructure. The individuals do not live in a vacuum. They continuously interact with their environment to live their lives.

Like human beings, business also does not function in an isolated vacuum. Businesses function within a whole gambit of relevant environment and have to negotiate their way through it. The extent to which the business thrives depends on the manner in which it interacts with its environment. A business which continually remains passive to the relevant changes in the environment is destined to gradually fade-away in oblivion. To be successful business has to not only recognize different elements of the environment but also respect, adapt to or have to manage and influence them. The business must continuously monitor and adapt to the environment if it is to survive and prosper. Disturbances in the environment may spell extreme threats or open up new opportunities for the firm. A successful business has to identify, appraise, and respond to the various opportunities and threats in its environment.

Environment is sum of several external and internal forces that affect the functioning of business. According to Barry M. Richman and Melvyn Cozen "Environment factors or constraint are largely if not totally, external and beyond the control of individual industrial enterprises and their managements. These are essentially the 'givers' within which firms and their managements must operate in a specific country and they vary, often greatly, from country to country." A strategist looks on the environment as posing threats to a firm or offering immense opportunities for exploitation. Stressing this aspect, Glueck and Jauch wrote: "The environment includes factors outside the firm which can lead to opportunities for or threats to the firm. Although there are many factors, the most important of the sectors are socio-economic, technological, supplier, competitors, and government. "



Business functions as a part of broader environment. The inputs in the form of human, physical, financial and other related resources are drawn from the environment. The business converts these resources through various processes into outputs of products and/or services. The latter are partly exchanged with the external client groups, say customers. The exchange process brings in some surplus (or profits, reputation, good public image and so on) to the business, which could be stored and used for further development and growth. Different organizations use different inputs, adopt different processes and produce different outputs. For example, an educational institution produces literate people. A hospital provides health and medical services. Organizations depend on the external environment for the inputs required by them and for disposing of their outputs in a mutually beneficial manner. The inputs-output exchange activity is a continuous process and calls for an active interaction with the external environment

Problems in understanding the environmental influences

In trying to understand the environment, managers face different problems as follows:

1. **Diversity**: *Difficulty in determining really important factor influencing business out of*
   The environment having different subsystem encapsulates many different influences; the difficulty is in making sense of this uncertainty in a way which can contribute to strategic decision-making. Listing all conceivable environmental influences may be possible, but it may not be much use because no overall picture emerges of really important influences on the organization.
2. **Uncertainty**: *Technological change & speedy global communications makes tough to predict impact*
   The second difficulty is that of uncertainty. Due to the pace of technological change and the speed of global communications more and faster change occurs now than

ever before. Whether or not change is in fact faster now than, and whether or not the changes are more unpredictable, it remains the case that, while it is important to try to understand future external influences on an organization, it is very difficult to do so.

3. **Bias in the understanding of Managers**: *oversimplification or bias like Normal individual*

   Managers are no different from other individuals in the way they cope with complexity. They tend to simplify such complexity by focusing on aspects of the environment, which, perhaps, have been historically important, or confirm prior views. They are the natural behaviour of everyone faced with complexity. one of the tasks of the strategic manager is to find ways & means to break out of oversimplification or bias in the understanding of their environment, while still achieving a useful and usable level of analysis.

4. **complexity**: forces *Interact with each other & new set of complex environment forces*

The environment consist a number of factors, events, condition and influence arising from different sources, which are not exist is isolation itself, but interact with each other to create a completely new set of environment forces. Hence is it tough to determine what constitute a given environment & grasp it totally.

Framework to understand the environmental influences

In spite of the problems in understanding business environment, organizations can not ignore it. We will make an attempt to identify a framework for understanding the environment of organizations. This will help in identifying key issues, find ways of coping with complexity and also assist in challenging managerial thinking.

Analyze nature

- It is useful to take an initial view of the nature of the organizations environment in terms of how uncertain it is. Is it relatively static or does it show signs of change, and in what ways? Is it simple or complex to comprehend?
- This helps in deciding what focus the rest of the analysis is to take.

Auditing of environmental influences

- This is done by considering the way in which political, economic, social and technological influences have a bearing on organizations.
- Here the aim is to identify which of the many different environmental influences are likely to affect the organization's development or performance. It is increasingly useful to relate such influences to growing trends towards globalization of industries.
- It may also be helpful to construct pictures - or scenarios - of possible futures, to consider the extent to which strategies might need to change.

Explicit Review of immediate environment of the organization.

- This helps in identifying the really important developments having strategic significance taking place around the organization. It may be that there are relatively few of outstanding significance; or it could be that there are many interconnected developments.

- It is also required to analyse the organization's competitive position: that is, how it stands in relation to those other organizations competing for the same resources, or customers, as itself.

Goals of environmental analysis

When the company ceases to adjust the environment to its strategy that results lessened achievement of corporate objectives. From environmental analysis strategists get time to anticipate opportunities and to plan to take optional responses to these opportunities. strategists to develop an early warning system to prevent threats or to develop strategies which can turn a threat to the firm's advantage. Not all future events can be anticipated but the extent that some or most are anticipated by this analysis and diagnosis, managerial decisions are likely to be better. And the process reduces the time pressures on the few which are not anticipated. Thus, the managers can concentrate on these few instead of having to deal with all the environmental influences.

In general, environmental analysis has three basic goals as follows:

- First, the analysis should provide an **understanding of current and potential changes** taking place in the environment. It is important that one must be aware of the existing environment. At the same time one must have a long term perspective about the future too.
- Second, environmental analysis should provide **inputs information for decision making**. Mere collection of data is not enough. The information collected must be useful for and used in strategic decision making.
- Third, environment analysis should facilitate and promote **strategic thinking in organizations**-typically a rich source of ideas and understanding of the context within which a firm operates. It should challenge the current wisdom by **bringing fresh viewpoints** into the organization

Characteristic of Business environment

Environment is complex: the environment consists of a number of factors, events, conditions and influences arising from different sources. All these do not exist in isolation but interact with each other to create entirely new sets of influences. It is difficult to comprehend at once what factors constitute a given environment. All in all, environment is a complex that is somewhat easier to understand in parts but difficult to grasp in totality. Complexity is a function of (a) no. of groups with which intersection required (b) the extend of available sophisticated knowledge.

Environment is dynamic: the environment is constantly changing in nature. Due to the many and varied influences operating; there is dynamism in the environment causing it to continuously change its shape and character.

Environment is multi-faceted: What shape and character an environment assumes depends on the perception of the observer. A particular change in the environment, or a new development, may be viewed differently by different observers. This is frequently seen when the same development is welcomed as an opportunity by one company while another company perceives it as a threat.

Environment has a far reaching impact: The environment has a far reaching impact on organizations. The growth and profitability of an organization depends critically on the environment in which it exists. Any environment change has an impact on the organization in several different ways.

Environment is uncertain fully or partly.

Environment is pervasive.

Relationship between the organization and its environment

In relation to the individual corporate enterprise, the external environment offers a range of opportunities, constraints, threats and pressures and thereby influences the structure and functioning of the enterprise. As a sub-system, the corporate enterprise draws certain inputs of resources, information and values from the larger environmental system, transforms them into outputs of products, services, goals and satisfactions and exchanges with or transmits them into the external environment. In the process, it generates energy and sustains itself.

Exchange of information: business is a part of socio economic environment.

1. The organization scans the external environmental variables, their behaviour and changes, generates important information and uses it for its planning, decision-making and control purposes. Much of the organizational structure and functioning is adjusted to the external environmental information.
2. Information generation is one way to get over the problems of uncertainty and complexity of the external environment. Information is to be generated on economic activity and market conditions, technological developments, social and demographic factors political-governmental policies and postures, the activities of other organizations and so on. Both current and projected information is important for the organization.
3. Apart from gathering information, the organization itself transmits information to several external agencies either voluntarily, inadvertently or legally. Other organizations and individuals may be interested in the organization and its functioning and hence approach the organization for information
4. It is also possible to glean information from the behaviour of the organization itself, from its occasional advertisements, and from annual reports. Also, the organization may be legally or otherwise bound to supply information on its activities to governmental agencies, investors, employees, trade unions, professional bodies and the like.

***Exchange of resources*:**

1. The organization receives inputs—finance, materials, manpower, equipment etc., from the external environment through contractual and other arrangements. It sustains itself by employing the above inputs for involving or producing output of products and services.

2. The organization interacts with the factor markets for purposes of getting its inputs; it competes sometimes and collaborates sometimes with other organizations in the process of ensuring a consistent supply of inputs.
3. The organization is dependent on the external environment for disposal of its output of products and services to a wide range of customers.
4. Perceiving the needs of the external environment and catering to them, satisfying the expectations and demands of the clientele groups, such as customers, employees, shareholders, creditors, suppliers, local community, general public is also an interaction process.
5. These groups tend to push on the organization for meeting their expectations, needs and demands and for upholding their values and interests.

Exchange of influence and power: Another area of organizational-environmental interaction is in the exchange of power and influence.

1. The external environment holds considerable power over the organization both by virtue of its being more inclusive as also by virtue of its command over resources, information and other inputs. It offers a range of opportunities, incentives and rewards on the one hand and a set of constraints, threats and restrictions on the other.
2. In both ways, the organization is conditioned and constrained.
3. The external environment is also in a position to impose its will over the organization and can force it to fall in line. Governmental control over the organization is one such power relationship.
4. Other organizations, competitors, markets, customers, suppliers, investors etc., also exercise considerable collective power and influence over the planning and decision making processes of the organization.
5. In turn, the organization itself is sometimes in a position to wield considerable power and influence over some of the elements of the external environment by virtue of its command over resources and information.
6. The same elements which exercise power over the organization are also subject to the influence and power of the organization in some respects.
7. To the extent that the organization is able to hold power over the environment it increases its autonomy and freedom of action. It can dictate terms to the external forces and mould them to its will.

   On the one hand the nature of relationship depends on the size of the organization, its age, the nature of business, the nature of ownership, degree of professionalization of management, etc. On the other hand, the relationship depends on the fact whether the external environmental elements behave in a random or structured manner (uncertainty *v.* predictability), whether such elements are placid(easygoing) or turbulent, whether they are slow-changing or fast changing, whether they are simple or complex, and so forth. The degree of interaction between the organization and the external environment is set by the above characteristics. It follows therefore that all organizations do not behave in the same way in relation to their external environment. Their structures and functions are shaped in tune with the demands of the external environment.