

Class - XII

22/5/2020

Sub: - Commerce

Chap: Business Environment



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**5. Company Image and Brand Equity:** The image and brand equity of the company play a significant role in raising finance, forming alliances, choosing dealers and suppliers, launching new products, entering foreign markets, etc.

**6. Human and Other Resources:** The competence, morale and motivation of employees play a vital role in the success of the firm. Tata Steel could easily carry out a large scale modernisation and restructuring. Some companies face great difficulty in carrying out such programmes due to strong resistance by employees and their unions.

Financial position and capital structure, distribution system and marketing competence, R&D and technological capability, physical assets and facilities (production capacity, technology, etc.) are other resources which influence the competitiveness and success of a company.

### 1.4.2 External Factors

2012 The external factors or forces refer to those individuals and groups or agencies with which a particular business organisation comes into direct and frequent contact in the course of its functioning. These individuals and groups are also known as stakeholders because they have a stake [Financial interest] in the working and performance of the particular business organisation. They exist and operate in the organisation's immediate operating environment.

However, the micro forces may not influence all the firms in a particular industry in the same manner. For example, one firm's supplier environment may be entirely different from that of another firm which has in-house supplies. Even when all the competing firms in an industry have similar micro environment, their relative success depends on how effectively they face the micro forces.

Micro environment consists of the following external elements :

**1. Customers:** The people who buy a firm's products and services are its customers. A business exists to create and satisfy customers. A firm may have different types of customers like individuals, households, Government departments, commercial establishments, etc. For example, the customers of a paper company may include students, teachers, educational institutions, business firms and other users of stationery.

In order to be successful a company must understand and meet the needs and expectations of its customers. A firm can select the target customer group or market segment on the basis of factors like profitability, elasticity of demand, dependability, degree of competition and growth prospects. It is generally risky to depend upon a single customer group. The customer environment is becoming global due to increasing globalisation and liberalisation of the economy. With the opening up of Indian market and foreign markets, the customer is becoming more global in the matter of shopping.

**2. Competitors:** A company may have both direct and indirect competitors. Direct competitors are the other firms which offer the same or similar products and services. For example Sony TV faces direct competition from other brands like LG, Samsung, Onida, Videocon, BPL, etc. Indirect competition comes from firms vying for discretionary income. For example, a cinema house, faces indirect competition from Casino, and other firms marketing entertainment. Due to economic liberalisation and globalisation, Indian companies are now facing competition from both domestic firms and multinational corporations.

vying - competing  
contest



**3. Suppliers:** Suppliers refer to the people and groups who supply raw materials and components to the company. Reliable sources of supply enable the company to carry on uninterrupted operations and to minimise inventory carrying costs. Suppliers also influence quality levels and costs of manufacturing. It is very risky to depend on a single supplier. A strike or any other production problem of the supplier may cause interruptions in manufacturing. Therefore, it is advisable to develop and sustain multiple sources of supply. Some companies like Maruti Udyog undertake vendor development to ensure timely and regular supply of materials and parts.

**4. Marketing Intermediaries (Middlemen) :** Several marketing intermediaries help a company in promoting, selling and distributing its products to consumers. Middlemen like agents, wholesalers, and retailers serve as a link between the company and its customers. Transportation firms and warehouses assist in the physical distribution of products. Advertising agencies, marketing research agencies and insurance companies are other types of marketing intermediaries. Countrywide retail distribution network has contributed significantly to the success of companies like Hindustan Unilever and Dabur India.

**5. Financiers:** The shareholders, financial institutions, debenture holders and banks provide finance to a company. Financial capacity, policies and attitudes of financiers are important factors for the company. For example, the company cannot raise funds through shares if the financiers are not risk taking.

**6. Publics:** Publics include all those groups who have an actual or potential, interest in the company or who influence the company's ability to achieve its objectives. Media groups, environmentalists, non-government organisations (NGOs) and local community are examples of publics. These publics can have both positive and negative impact on a business firm. For example, media groups can be used to disseminate useful information. A company can cooperate with the local people to improve its image as well as to provide some benefit to the people. On the negative side, local community concerned with public health can force a company to suspend operations or to take pollution control measures. Non-government organisations often organise protests against firms suspected of being guilty for child labour, cruelty against animals and damage to nature. For example, one of the leading companies in India was attacked by the media for writing advertisements on rocks near a famous hill station. Such activities of publics can tarnish the image of business.

## 1.5 MACRO ENVIRONMENT

Macro environment refers to the general environment or remote environment within which a business firm and forces in its micro environment operate. A company does not directly or regularly interact with the macro environment. Therefore, macro environment is also known as Indirect Action Environment. Forces in the macro environment, however, create opportunities for and pose threats to the company. The macro environment forces are less controllable than the micro forces. Therefore, success of an enterprise depends on its ability to adapt to the macro environment. For example, when there is a substantial increase in the cost of imported raw materials due to depreciation of the Rupee, production of such materials within the country may become necessary.



Internal environment refers to all the factors existing within a business firm. The internal factors are considered controllable because the enterprise has control over these factors. For example, a company can modify or alter its organisation structure, policies and programmes; personnel, physical facilities and marketing mix to suit the changes in the environment. However, an enterprise may not sometimes have complete control over all the internal factors. Internal environment imparts strengths or causes weaknesses. A strength is an inherent capability of an enterprise which can be used to gain strategic advantage over its competitors. On the other hand, weakness means an inherent limitation or constraint of an enterprise which creates a strategic disadvantage.

The main internal factors which influence business organisation are as follows:

✓ **1. Corporate Culture:** The values, beliefs and attitudes of the founders and top management of the company exercise a strong influence on what the company stands for, how it does things and what it considers important. When the value system is shared by all the members, the organisation is likely to be more successful. The value system of Narayana Murthi and its acceptance by those at the helm of affairs have been responsible for the high ethical standards of Infosys Technology. Similarly, the strong culture have contributed to the success of Wipro Corporation and Tata Steel (formerly TISCO).

✓ **2. Mission and Objectives:** The business philosophy and purpose of a company guide its priorities, business strategies, product market scope and development process. The mission of Dhirubhai Ambani to make Reliance the biggest group in the private sector prompted him to launch world scale plants in petrochemicals and other industries. Ranbaxy's mission "to become a research based international pharmaceutical company" led it to enter foreign markets. Similarly, mission and purpose of other companies have guided their thrust area and portfolio strategy.

✓ **3. Top Management Structure:** The composition of the board of directors, the degree of professionalisation of management and the organisational structure of a company have important bearing on its business decisions. The board of directors sets the direction and monitors the performance of the company. Companies having highly qualified and responsible boards out perform those lacking such boards of directors. Sound management structures and styles facilitate timely decision-making. The shareholding pattern of a company also influence its functioning. Some companies are closely held (like Wipro) where the promoters hold majority of the shares. In widely held companies (like Tata Steel) promoters hold minority of the shares. Nominees of financial institutions may exercise control over decision-making when the financial institutions have large shareholding in the company. Lord Swaraj Paul could not acquire control over DCM and Escorts due to the support extended by financial institutions to the promoters of these companies.

✓ **4. Power Structure:** The internal power relationship between the board of directors and the chief executive is an important factor. The extent to which top management enjoys the support of shareholders and employees at different levels also has an important bearing on decision-making and working of the company.



- (b) Social attitudes, customs, traditions, rituals, culture, life styles, etc.
- (c) Family structure and values.
- (d) Social concerns regarding pollution, corruption, status of women and minorities, role of media.
- (e) Education levels, awareness of rights, work ethics.

Social and cultural forces exercise a significant influence on business. Population and income levels affect pattern of demand. Growing awareness about health has led to greater demand for nutritious foods, exercise equipment and slimming centres. DOINKIS (Double Income No Kids) has emerged as an influential customer group in metropolitan cities.

Changes in habits and preferences of people have increased the demand for life style products such as designer clothes, consumer electronics, etc. Rise in middle class has led to public investment in corporate sector.

**3. Technological Environment:** Technological environment refers to the state of science and technology in the country and related aspects such as the rate of technological change, institutional arrangements for the development and applications of new technology (research and development systems), manufacturing processes and equipment, etc. Technology means systematic application of scientific and other organised knowledge to practical tasks. For example, robots are being used in industry.

Technological environment depends upon several factors such as spirit of invention and innovation among people, facilities for research and development, incentives and concessions for development and application of new technology, legal protection for intellectual property rights, access to foreign technology, etc.

Technological environment exercises a significant influence on industry and commerce. Advancements in technology help to improve productivity and quality. Technological progress increases competitiveness of industry by reducing costs. But advanced technology requires huge capital investment and skilled manpower. Rapid changes in technology increase obsolescence of plant, machinery and skills. New technology often faces resistance due to changes required in organisations, skills and human relationships. For example, digital watches resulted in the death of traditional watches. Cable TV has affected radio and cinema. Xerography damaged carbon paper business. Colour television wiped out the market for black and white television. Shopping malls are affecting retail business in big cities.

**4. Political Environment:** The political environment consists of the forces concerning management of public affairs and their impact on business. The main components of political environment are as follows:

- (a) Constitutional framework.
- (b) The political system—nature and ideology (e.g. democracy) political parties and power centres.

(c) The political structure—centre-state relations.

(d) Political philosophy and stability of the government.



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Macro environment consists of the following components [Fig. 1.4] :

1. Economic Environment
2. Social Environment
3. Technological Environment
4. Political Environment
5. Legal Environment

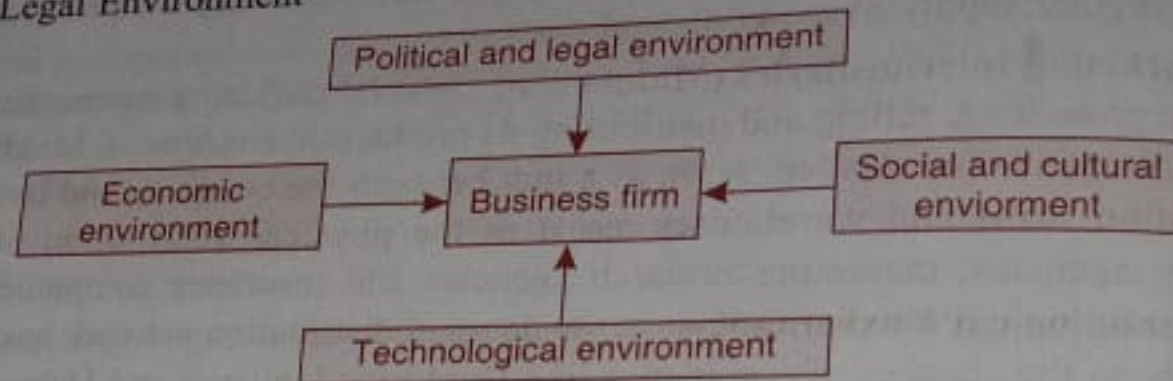


Fig. 1.4 Components of Micro Environment

**1. Economic Environment:** The economic environment consists of the factors and forces concerning means of production and distribution of wealth. It includes all such forces of economic, development which influence the product market scope of business. The main components of economic environment are as follows:

- (a) The nature of economic system of the country—property rights, ownership of factors of production, functioning of price mechanism, economic planning (five year plans and annual budgets), role of public sector, production relations.
- (b) Structural anatomy of the economy—occupational distribution of labour, structure of national output, pattern of capital investment, composition of trade, structural equilibrium between different sectors (agriculture, industry, services).
- (c) Organisation and development of the capital market.
- (d) Economic policies—industrial policy, monetary policy, fiscal policy.
- (e) Stage and pace of economic growth in the country.
- (f) Economic indices—gross national product, per capita income, rate of savings and investment, balance of payments position, rate of inflation, interest rates, tax rates.
- (g) Industrial infrastructure—transportation, Communication, power, etc.

Economic environment exercises strong influence over business. For example, decline in interest rates reduces the cost of capital for industry. Rise in disposable income of people has led to growing demand for homes, cars, etc. Recent changes in economic policies have led to the growth of venture capital firms, mutual funds, leasing and finance companies, etc.

**2. Social Environment:** The social environment consists of all the social and cultural forces within which business firms operate. The main components of social environment are as follows:

- (a) Demographic trends—size and distribution of population, age compositions, male-female ratio, rural urban mobility, income distribution, etc.



## 1.6 SWOT ANALYSIS

Several techniques are used for analysing and diagnosing the environment. One such technique is given below :

✓ **1. SWOT Analysis:** SWOT is acronym for strengths, weaknesses, opportunities and threats. While strengths and weaknesses can be identified by analysing the internal environment (corporate appraisal), opportunities and threats can be identified by analysing the external environment. SWOT analysis can also be modified into TOWS (Threats, Opportunities, Weaknesses and Strengths).

✓ **Strength (S):** A strength is an inherent capability of the company which it can use to gain strategic advantage over its competitors. Country-wide distribution network, for example, is a strength of Hindustan Unilever Limited.

✓ **Weakness (W):** A weakness is an inherent limitation or constraint of the company which creates strategic disadvantage for it. Family fuel is today a weakness of Reliance Industries. Shortage of funds is another example of weakness.

✓ **Opportunity (O):** An opportunity is a favourable condition in the company's external environment which enables it to strengthen its position. Economic liberalisation and globalisation offers an opportunity to companies which want to enter banking, insurance, telecommunication sectors. Growing demand is also an example of opportunity.

✓ **Threat (T):** A threat is an unfavourable condition in the company's external environment which causes a damage or risk to its position. Competition from multinational corporations is a threat for Indian firms.

SWOT analysis is helpful in the formulation of an effective strategy that can capitalise on the opportunities and neutralise the threats faced by an organisation. SWOT analysis is a systematic and logical approach to understand the environment of a business organisation. It helps a firm in matching its strengths and weaknesses (What it can do) with the opportunities and threats operating in the environment (What it is allowed to do). An effective strategy is one that enables the firm to capitalise on the environmental opportunities and to neutralise the threats with the help of its strengths.

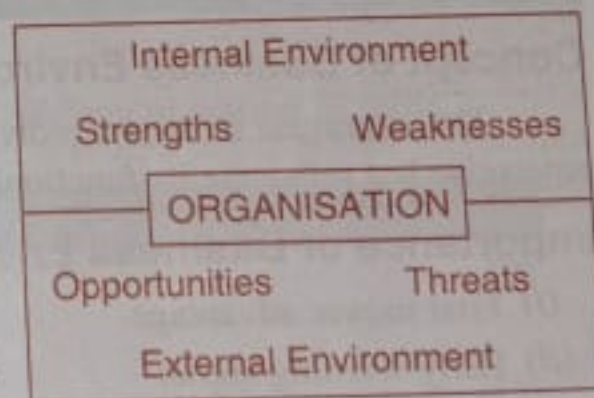


Fig. 1.5 SWOT Model of Environmental Analysis

### SWOT Analysis of Hindustan Unilever Ltd. (HUL)

#### Strengths

- a strong brand portfolio
- consumer understanding
- R&D ability
- distribution reach
- high quality manpower



- (e) Political processes—party system, elections and their funding.
- (f) Degree of politicisation of economic and business issues.
- (g) Foreign policy and defence policy of the country.
- (h) Relations of the country with other countries.

India is a democratic nation wherein the government plays an active role in business affairs. Political changes exercise a significant influence on business. For example, Coca Cola and IBM were forced to leave India due to very strict policy of the government during 1977-1980.

Bangalore and Hyderabad have become the most popular locations for information technology (IT) firms due to supportive political climate. Changes in political scenario led to the entry of Coca Cola, Pepsi cola, IBM and other multinational corporations in India.

**5. Legal (Regulatory) Environment:** Business has to function within the framework of laws and regulations of the country. Legal environment, therefore, exercises a significant influence on business activities. The main components of the legal and regulatory environment are as follows:

- (a) Rights and duties of citizens as specified in the constitution
- (b) Laws concerning promotion, operation and expansion of business
- (c) Flexibility and adaptability of laws
- (d) Judicial system of the country

In recent years substantial modifications have taken place in various laws and regulations governing business in India. Removal of controls over foreign exchange and liberalisation of foreign direct investment have led to the entry of several multinational corporations in the country. Deregulation of capital markets has created a surge in primary and secondary capital markets. Now companies in foreign countries can directly issue shares to Indian investors.

### Elements of Macro Environment

Element	Description	Example (for an energy firm)
Economic	The state of the economy—relationships with customers, competitors, suppliers and investors	Increasing production costs, gas allocations, varying customer needs
Political	Political climate, political system, public image, legal system, central state and local governments, foreign governments, interest groups	OPEC, privatisation of oil firms, relations with Gulf, Iraq-Iran war
Social	Demographic trends, cultural factors, individual needs, attitudes towards products and services	Attitudes towards high prices, pollution problem
Legal	Laws and regulations governing business	Safety regulations, pollution control laws



so that they are never caught unaware. With the help of environmental learning managers can react in an appropriate manner and thereby increase the success of their organisations.

### 3 DIMENSIONS OF BUSINESS ENVIRONMENT

There are two main dimensions of business environment – (i) Micro, and (ii) Macro. Micro environment consists of internal and external factors. On the other hand, macro environment consists of general factors like economic, social, technological, political and legal forces.

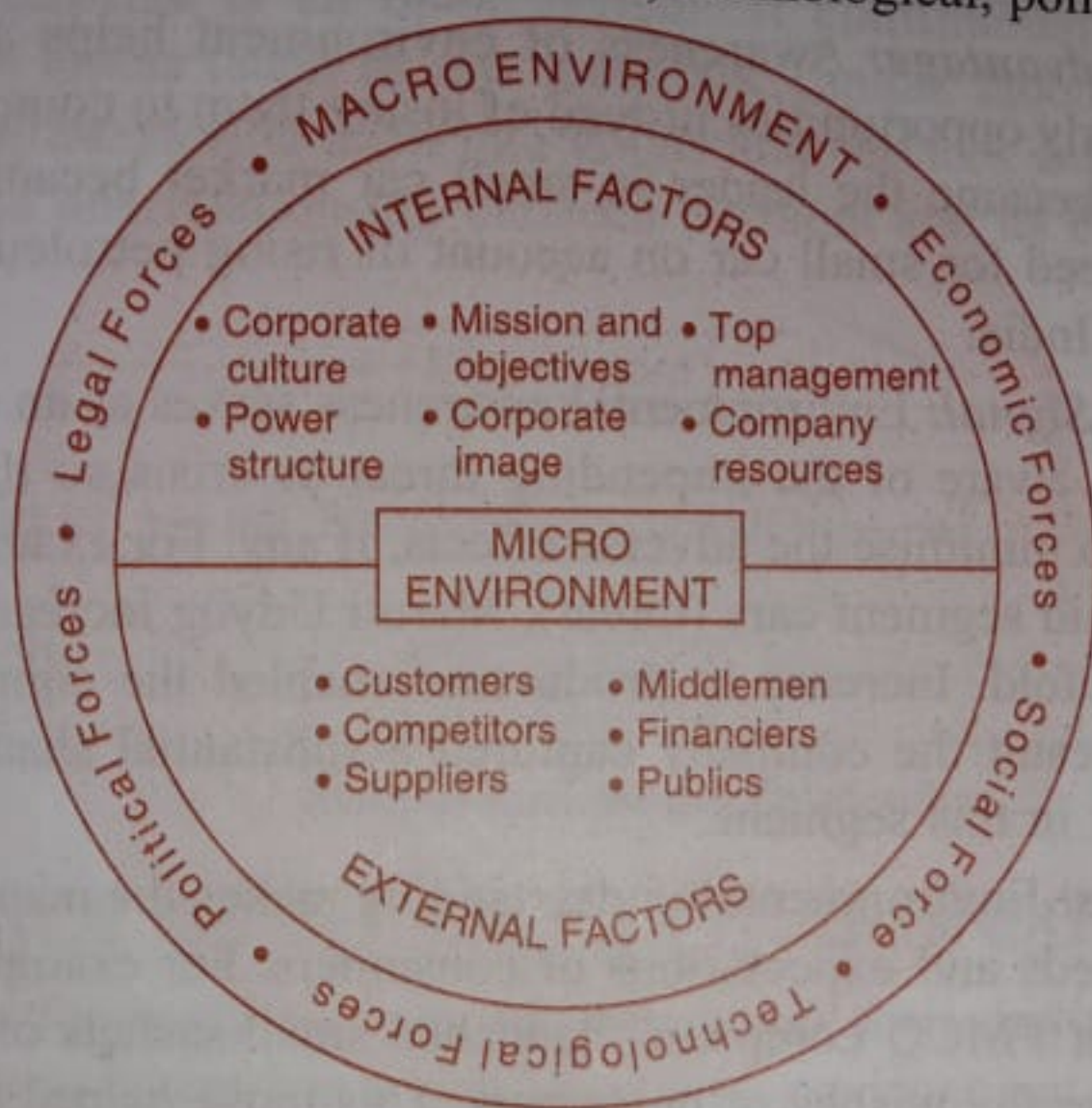


Fig. 1.2 Dimensions of Business Environment

### 1.4 MICRO ENVIRONMENT

Micro environment refers to those internal and external factors which exercise a direct influence on the working and performance of an individual business organisation. Micro environment is also known as **Direct Section Environment or Task Environment**. Micro environment may be classified into two broad categories as follows [Fig. 1.3] :

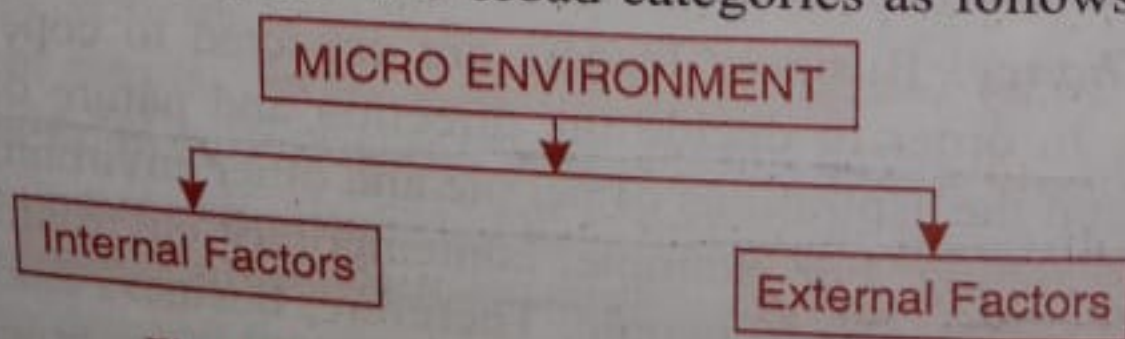


Fig. 1.3 Components of Micro Environment