**GOVERNMENT ARTS AND SCIENCE COLLEGE, MANALMEDU, MAYILADUTHURAI**

**DEPARTMENT OF BUSINESS ADMINISTRATION**

**BBA– I YEAR II SEMESTER 16ACBB2 – BUSINESS ENVIRONMENT**

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**UNIT 1**

**INTRODUCTION:**

**DEFINITION:**

Business environment may be defined as the total surroundings, which have a direct or indirect bearing on the functioning of business.

It may also be defined as the set of external factors, such as economic factors, social factors, political and legal factors, demographic factors, and technical factors etc., which are uncontrollable in nature and affects the business decisions of a firm.

It also includes the internal factors of the business i.e. owners, employees and their relationship with each other which can be controlled to some extent.

**BUSINESS:**

**What is Business?**

It is a continuous production and distribution of goods and services with the aim of earning profits under uncertain market conditions.

It is a form of regular activity conducted with an objective of earning profits for the benefit of those on whose behalf the activity is conducted.

**Nature of Business:**

An activity to earn profit by providing goods/services

No limit of partners (can be 1 or 10,000)

Main purpose should be earning i.e. economic activity

**CHARACTERITICS**:

Characteristics of Business:

1. Exchange of goods and services

2. Deals in numerous transactions

3. Profit is the main Objective

4. Business skills for economic success Consumer goods

5. Risks and Uncertainties Producer goods

6. Buyer and Seller

7. Connected with production

8. Marketing and Distribution of goods

9. Deals in goods and services

10. To Satisfy human wants

11. Social obligations

**OBJECTIVES**:

**Objectives of Business**

1. Profit 2. Growth 3. Customer Satisfaction 4. Employee Satisfaction 5. Quality products and services 6. Market Leadership 7. Employment creation 8. Service to Society.

**What is Business Environment?**

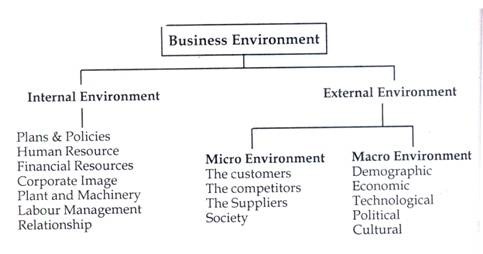
It consists of all those factors that have bearing on the business.Business Environment is sum or collection of all internal and external factors such as employees, customer’s needs and expectations, supply and demand, management, clients, suppliers, owners, activities by government, innovation in technology, social trends, market trends, economic changes, etc. These factors affect the function of the company and how a company works directly or indirectly. Sum of these factors influences the companies or business organisations environment and situation.

**Importance of BE -** Business environment helps in

* Identifying business opportunities,
* Tapping useful resources,
* Assists in planning,
* Improves the overall performance,
* Growth, and profitability of the business.

A set of conditions – Social, Legal, Economical, Political or Institutional that are uncontrollable in nature and affects the functioning of organization.

**TYPES**:



**UNIT2**

**ECONOMIC ENVIRONMENT:**

Economic Environment:

The economic conditions of the economy and the performance of a business have a very deep relationship. A business depends on the economy for all its inputs and factors of [production](https://www.toppr.com/guides/business-economics/theory-of-production-and-cost/meaning-of-production/). It also sells its products and services in the similar market. A [market](https://www.toppr.com/guides/business-studies/marketing/market-and-marketing/) is never in one stable condition. It is always in a flux. If there is a boom in the market then all businesses will benefit from the favourable conditions. The income will be higher, rate of interests will be low, new [capital](https://www.toppr.com/guides/principles-and-practices-of-accounting/introduction-to-partnership-accounting/capital-accounts-fixed-and-fluctuating) will be available etc. Also, the opposite is also true in case of a bust.

To know the economic environment of a country or a business one has to understand the economic policies of the nation. These policies put direct impact on the working and success of the business.

**Factors**:

Economic conditions, economic policies (Industrial policies, monetary and fiscal policy etc) and the economic system are the important factors that constitute economic environment of the business.

**ECONOMIC CONDITIONS:**

1. Gross Domestic Product
2. Per capita income
3. Markets for goods and services
4. Availability of capital
5. Foreign exchange reserve
6. Growth of foreign trade
7. Strength of capital market

All these help in improving the pace of economic growth.

**ECONOMIC POLICY:**

These are frame by the government from time to time and include:

1. Industrial policy

2. Fiscal policy

3. Monetary policy

4. Foreign investment policy

5. Export –Import policy (Exim policy)

The government keeps on changing these policies from time to time in sight of the developments taking place in the economic scenario, political expediency and the changing requirement. Every business firm has to function severely within the policy framework and react to the changes therein.

**ECONOMIC SYSTEM:**

The world economy is mainly governed by three types of economic systems, viz.,

1. Capitalist economy
2. Socialist economy
3. Mixed economy.

India has adopted the mixed economy system which implies co-existence of public sector and private sector.

**BASICS OF ECONIMC SYSTEM:**

India is Mixed economy system.

A mixed economy is an economic system that incorporates aspects of more than one economic system.

Resources are owned both by the government as well as private individuals.

Private and public sector exist side by side.

All basic and heavy industries and other strategic sector of an economy e.g., banking, transport, energy etc. are controlled by the government.

Agriculture, consumer goods and other industries trade are left for the private sector.

**Advantages**:

* A mixed economy may have less income inequality due to the role played by the government.
* Consumers are secured from consumption of harmful products.

**Disadvantages**:

* The foundations of the mixed economy were laid in India with the Industrial policy of 1948.
* Under this policy some industries like arms and ammunition, atomic energy, railway transport, etc. were made the monopoly of the state.
* Some more industries like iron and steel, aircraft and Shipbuilding, minerals etc., were sought to be progressively owned by the state.
* Government controlover other industrial sectors was also extended and strengthened.

**ECONOMIC PLANNING:**

An economic plan is an outline of schemes designed to achieve certain pre-determined economic objectives, in a exacting order of priorities within a specified period of time.

Economic planning is an [allocation mechanism](https://en.wikipedia.org/wiki/Resource_allocation) based on a computational process for solving a constrained maximization problem and an iterative procedure to obtaining its solution. Planning is a mechanism for the allocation of resources between and within organizations contrast with the [market mechanism](https://en.wikipedia.org/wiki/Market_(economics)). As an allocation mechanism for [socialism](https://en.wikipedia.org/wiki/Socialism), economic planning replaces [factor markets](https://en.wikipedia.org/wiki/Factor_market) with a procedure for direct allocations of resources within an interconnected group of [socially owned](https://en.wikipedia.org/wiki/Social_ownership) organizations which comprise the productive equipment of the economy.

A planned economy is a type of [economic system](https://en.wikipedia.org/wiki/Economic_system) where [investment](https://en.wikipedia.org/wiki/Investment), [production](https://en.wikipedia.org/wiki/Production_(economics)) and the allocation of [capital goods](https://en.wikipedia.org/wiki/Capital_good) take place according to economy-wide economic plans and production plans. A planned economy may use [centralized](https://en.wikipedia.org/wiki/Centralization), [decentralized](https://en.wikipedia.org/wiki/Decentralized_planning_(economics)) or [participatory](https://en.wikipedia.org/wiki/Participatory_economics) forms of [economic planning](https://en.wikipedia.org/wiki/Economic_planning).

**Aims of Economic Plan:**

The aims of economic planning are –

1. Improving the economic system,
2. Making the social and moral up liftment of the people, and
3. Strengthening the country’ from the political point of view.

At present, economic planning is adopted by almost all economies of the world in some form or the other so as to take away vicious circle of poverty.

India has accepted economic planning for its Central and State Governments.

**Features of Economic Plan:**

The main features of economic planning are as follows:

1. Determining - the objectives that are to be achieved.

2. Estimating - the resources that are available in the country.

3. Determining - the order in which the objectives are to be achieved.

4. Designing - suitable schemes for realizing of the objectives.

5. Determining - the plan outlay and investment.

**Types of Economic Plan:**

Economic planning can be divided into four types such as-

1. Perspective Plans: Perspective plan is a long-term plan. Generally, it is formulate for a period ranging from 15 years to 20 years.

2. Five-year Plans: Five-years plans as their name specify are designed for a period of five years. It is an integral part of perspective plan.

3. Annual Plans: Annual plan is a part of five-year plan. It is prepared year-wise. So for each five-year plan, five annual plans will be ready in a detailed manner.

4. Rolling Plans: Rolling plans do not have a preset period of time. These plans have only duration and move forward. As it moves forward the year, which was completed, is deleted and one year is added at the end.

**Privatization**:

Privatization was introduced during the eighties by Rajiv Gandhi.

In 1991, the government of P.V. Narsimha Rao gave genuine speed by introducing the New Industrial Policy.

Meaning of privatization:

Privatization is the process of participation of private sector in the ownership and management of public sector

**METHODS**:

Methods of privatization:

1. Sale of the entire entity - The government sells the entire public sector unit to private sector.
2. Initial public offering - The government issues shares to the public offering to decrease government stakes.
3. Management control - Though not the private company the government transfers the management control to the new company to make it more accountable.
4. Sale to employees : Employees have the first choice to buy the shares of the shares of public limited company when they are put for sale

**Advantages**:

1. Better services to the consumers

2. Use of updated technology which helps to reduce wastage

3. Helps in infrastructure development with the help of taxes received from business firms

4. Helps the government to concentrate on social problem.

**Disadvantages**:

1. Investment in industries of comfort and luxurious products instead of necessary products and problem of optimum use of capacity
2. Aims at making profit which adversely affect the interest of the community
3. Problem of unemployment
4. Market share of privatization is increasing year by year.

**Does India need more privatization?**

The central government own public sector units which have accumulated losses of Rs.52, 551 crore losses that India can no longer afford.Also those shareholders are getting less return on their investment. So, India needs to private more industries.

**Government’s role in privatization:**

* Government acts as an arbitrator protecting both the consumers and the investors.
* Government protect the consumers from unwarranted prices

**UNIT 3**

**POLITICAL ENVIRONMENT:**

The political environment includes all laws, governmentagencies, and lobbying groups that influence or restrict individuals or organizations in the society.

1. The stability of the government also influences business and related activities to a large extent.

2. It sends a signal of strength, confidence to a variety of interest groups and investors.

3. Ideology of the political party also influence the business organisation and its operations.

4. Trade union activities also influence the operation of business enterprises.

5. Most of the labour unions in India are affiliated to various political parties.

6. Strikes, lockouts and labour disputes etc. also adversely affect the business operations.

However, with the competitive business environment, trade unions are now screening great maturity and started contributing positively to the success of the business organisation and its operations through workers participation in management.

**FACTORS**:

Forces in the political environments consist of factors related to management of public affairs.

1. **PoliticalSystem**: It consists of political parties, election procedures, and power centres. Political instability adversely affects business activities.

2. **PoliticalInstitutions**: They consist of legislature, executive and judiciary. Legislature enacts laws that guide business activities.

Executive lays down policies, regulations and procedures that influence business activities.

Judiciary serves as watchdog. Its ruling influences business practices.

3.**Political Philosophy:** It can be democratic, totalitarian or a mix or both. Political philosophies influence business activities.

5. **PressureGroups:** They can be special interest groups that use political process to advance their position on an issue of social concern

**POLITICAL INSTITUTIONS:**

Legislature, Executive and Judiciary

**Legislature**:

* Most powerful institution
* Role is to make the law
* Powers
* Policy making
* Law making
* Approval of budgets

**Executive**:

* Referred to as government
* Responsible for implementing the law
* To shape, direct and control the business activities

**Judiciary**:

* Responsible for interpreting and applying law
* It has to look into the exercise of authority by the executives is according to the general rules laid down by the legislature.
* To settle legal disputes that affects business considerably. - Disputes between employers and employees - Disputes between two companies - Disputes between employees.

**Responsibilities of business towards government:**

1. Regular payment of taxes

2. Voluntary programmes - Sponsoring social welfare programmes - Environmental preservation - Promoting education - Assistance in drought, flood etc.

3. Providing Feedback information

4. Government contracts

5. Providing service to the government through becoming member in advisory board

6. Provision of a system of money and credit

7. Balanced development and growth

8. Provision of basic infrastructure

9. Provision of information

10. To assist small scale industries

11. Licensing and inspection

12. Protection from foreign competition

**Regulatory Role:**

**Direct Control** - Licensing, reservation of certain products for small enterprises, reservation of industries for public enterprises, restrictions on Import export etc.

**Indirect Control** - Not selective in nature.

Eg: Regulation of promotional activities, restrictions on inter corporate investments limit on managerial remuneration etc. also monetary policy measures, measures to check concentration of power etc.

**Promotional Role:**

It includes:

1. Infrastructure Development of- transport and communication facilities Social overhead capital Money and credit system like banks, stock exchange etc.

2. Generation and distribution of Power and energy

3. Providing incentives in form of tax concessions, subsidies etc.

**Entrepreneurial or participative role:**

Setting up of public enterprises like railways, power generation plans, steel plants, heavy machinery etc.

**Planning role:**

Government frames economic plans to make sure optimum utilisation of resources.

**UNIT-4**

**FINANCIAL ENIVRONMENT:**

Financial system is a system which supplies the necessary financial inputs for the production of goods and service to develop the standard of life and well-being of the nation.

**Role of Financial System:**

* To link the savers & investors.
* To achieve optimum allocation of risk bearing.
* National Growth.
* Both firms and individuals can invest in companies through financial markets.

**Classification ofFinancial System:**

1. FINANCIAL INSTITUTION

2. FINANCIAL MARKET.

3. FINANCIAL INSTRUMENT

**FINANCIAL INSTITUTION:**



**Banking:**

Commercial banks, Co-operative banks, RBI, Post office savings banks

**Non-banking:**

HDFC, LIC, UTI,

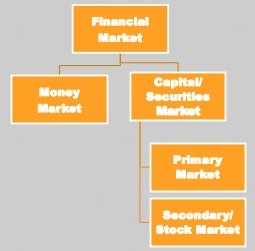
**Developmental:**

ICICI, IDBI, IFCI, NABARD, SIDBI

**Regulatory Institutions:**

BIFR, SEBI, RBI, IRDA

**FINANCIAL MARKET:**



**Money Market:**

-Dealing in monetary assets of short term nature, less than one year.

-Major participant are RBI, Commercial Banks and chit funds etc.

**Capital Market:**

-A market for long term funds concentrate on financing of fixed investments two segments: Primary market and secondary market

**Primary/new issue market:**

- A market for new issues i.e. a market for fresh capital.

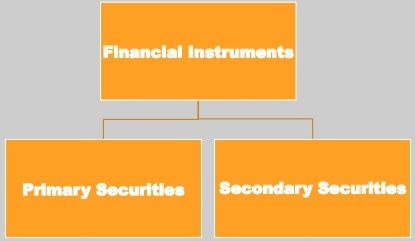
-Provides the channel for sale of new securities, not previously available.

**Secondary market/ stock market:**

-A market for old/existing securities.

-A place where buyers and sellers of securities can enter into transactions to purchase and sell shares, bonds, debentures etc.

**FINANCIAL INSTRUMENT:**



**PRIMARY SECURITIES:**

-Equity, Preference, Debt and Various combinations.

**SECONDARY SECURITIES**:

-Mutual Fund Units and Insurance Policies etc.

**RBI:**

-Reserve Bank of India also called as the central bank of the country.

-It’s established on April 1, 1935, nationalization in 1949.

-The Reserve Bank is fully owned by the Government of India.

-Governor sits and is where policies are formulated.

**FUNCTIONS OF RBI:**

* Head of all the banks in India (Banker to govt & Banker to Bank)
* Issue of currency and coins
* Manager of foreign exchange
* Monetary authority
* Instruments of credit control
* Regulates the trade of gold

**Quantitative Measures**

**Bank Rate:** Rates at which RBI discounts bills of commercial banks

**Cash Reserve Ratio (CRR):** Portion of Deposit which commercial banks have to keeps with RBI in the form of Cash Reserves

**Statutory Liquidity Rate (SLR):** Portions of Total Deposit which commercial banks have to keep with RBI in the form of Liquid Assets

**Repo Rate:** Rates at which Commercial Banks borrow money from RBI

**Reverse Repo Rate:** Rates at which RBI borrows money from Commercial Banks.

**INTERNATIONAL ECONOMIC INSTITUTIONS:**

**WORLD BANK:**

The World Bank is an international financial institution that provides loans to countries of the world for capital programs.

It established in 1944 and Headquartered in Washington D.C

It comprises two institutions: the International Bank for Reconstruction and Development (IBRD), and the International Development Association (IDA).

**ROLE:**

* The Bank's stated purpose is to "bridge the economic divide between poor and rich countries.
* It does this by turning "rich country resources into poor country growth.
* It has a long-term assistance to "achieve sustainable poverty reduction.
* Today, the World Bank Group is one of the world's largest sources of development assistance.

**IMF:**

The International Monetary Fund (IMF) - is an international organization and aims to reducing global poverty, encouraging international trade, and promoting financial stability and economic growth

It established in 1945 and Headquartered in Washington D.C.

**ROLE:**

* It has a short term assistance to provide fund to the members.
* The IMF promotes international monetary cooperation and provides policy advice.

**WTO:**

The World Trade Organization (WTO) - is a global international organization dealing with the rules of trade between nations.

It’s headquartered in Geneva in 1945.

**ROLE:**

* The goal of WTO is to provide a fair platform for its member countries to help in services like exports, imports and conduct their business in a peaceful way.
* WTO facilitates implementation, administration and smooth operations of trade agreements between the countries.
* It settles arguments between the member countries through the established rules and regulations.
* It cooperates with the IMF (International Monitory Fund) and World Bank.

**UNIT 5**

**SOCIAL AND CULTURAL ENVIRONMENT:**

1. It refers to the entire social and cultural surrounding that influences business.

2. Culture refers to dance, drama, music and festivals include Knowledge, belief, art, moral, law, customs & others capability

**FACTORS**:

1. **Demography**: It is concerned with human populations and its distribution. It influences the size of markets and location of customers.

2. **Social Institutions:** They consist of family, reference group and social class that influence business. Buying behaviour differs among classes which affect the business activities.

3. **Cultural Factors**: Culture influences values and beliefs, attitudes which affect the business activities. People of different religions go for different foods, beverages, clothes, materials.

**IMPACT OF CULTURE ON BUSINESS:**

* India is a country of diversity where people of different religion, caste, language live together.
* This diversity brings different challenges and opportunities for the business.
* Social institutions have great impact on business.
* For example, language, caste, religion, culture, attitude to work and education

**Impact between culture and business:**

1. Culture creates people

2. Culture and globalization

3. Culture determines goods and services

4. Language and culture

5. Attitudes

6. Collectivism and Individualism

7. Ambitious or complacent

8. Education

9. Family

10. Authority

11. The view of scientific method

12. Ethics in Business

13. Religion

14. Marriage

15. Cultural Resources

16. Customs and manners

**PEOPLE ATTITUDE TO BUSINNESS AND WORK & BUSINESS AND SOCIETY:**

People of different culture have different attitudes towards business and works.

Attitudes to work differ from country to country and individual to individual.

For example - Japanese have achieved a huge success in business because of their positive attitude towards work.

In India, Bihar has not achieved a great success in business in spite of having huge natural resources because of the poor attitude towards work of its people.

On the other hand, Punjab has progressed much in agricultural and industrial sector like green revolution, the biggest woollen industry etc. because of its hard working people as they have positive attitudes towards work.

**CSR:**

CSR- referring to the way that businesses are managed to bring about an overall positive impact on the communities, culture, societies and environments in which they operate.

**CSR in INDIA:**

Indian business organisations have been conscious of their responsibilities towards the society because of its culture and religion.

The large contribution made for philanthropic purpose should be considered as a part of CSR in today’s context.

Ever since its inception, corporate like Tata group, Aditya Birla group and Indian Oil Corporation to name a few have been involved in serving the community.

TATAs have spent the highest amount on social service in the country.

They have been spending on rural development, community health, education and woman empowerment.

**Importance of CSR:**

The importance of CSR increases with globalization as both investors and customers have become very sensitive to societal and environmental issues.

CSR helps business organisations to:

1. Impulse their relationship with local communities.
2. Increase the branding of the organisation.
3. Building a good corporate image for themselves.

CSR minimizes the negative impact of business activities and create wealth and value for shareholders and community as a whole.