CHAPTER -3

BUSUINESS ENVIRONMENT

Business is an economic activity. It has direct and indirect relationship with society. No business can exist in the society without considering the forces such as government, competitors, customers, suppliers, creditors etc.

Meaning

'Business environment is the aggregate of all conditions, events and influence that surround and affect it.' – Keith Davis

Business environment is the sum total of all the factors and forces in society which has direct or indirect influences on business and its activities. Business environment may be defined as a set of external forces which affect the business activities such as economic factors, government and legal factors, technological factors and demographic factors. It also includes all interest groups around the business like suppliers, customers, employees, creditors etc.

FEATURES OF BUSINESS ENVIRONMENT

1 .<u>Totality of external forces</u>- Business environment is the sum total of all things external to business firms and which are out of control.

2. **<u>Specific and general Forces</u>:-** Business Environment consists of both specific and general forces. Specific forces have direct impact on individual enterprises. Eg: investors, suppliers, competitors etc. Whereas general forces have indirect impact on all the business enterprises. For eg: social, political, legal, technological condition.

3**. <u>Interrelations</u>:-** Various elements or parts of business environment are interrelated. For eg: increased awareness for health care have increased the demand for fat free cooking oil, sugar free products, health resorts etc.

4. **<u>Dynamic nature:</u>** The business environment is flexible as it keeps on changing in terms of technological improvement, changes in consumers taste, and fashion.

5. **<u>Uncertainty:-</u>** Business environment is highly uncertain as one cannot predict the future happening exactly.

6. **Complexity:-** Business environment is a very complex phenomenon. It consists of numerous interrelated and dynamic conditions or forces which arise from different sources. Therefore it is very difficult to comprehend its meaning and state what constitutes business environment.

7. **Relativity:-** Business environment is relative since it differ from country to country and even from region to region. For eg:- demand for saree may be high in India, where is it almost nil in France

IMPORTANCE OF BUSINESS ENVIRONMENT

Successful business persons would be those who may be ready to adapt to its environment. An in-depth understandings of the environment helps in planning and policy formulation. The importance of the environment is discussed under the following heads

1. **Identifying business opportunities and getting the first mover advantages**

   Identification of opportunities possible only through awareness of environment. Early identification ofopportunities helps an enterprise to be the first to exploit them instead of losing them to competitors. Eg:- V – Guard establishing their amusement park Veegaland, MarutiUdyog Ltd is small car segment, Eastern's packed food items (ready to eat, ready to cook items) etc.

2. **Identify threats and early warning signal**

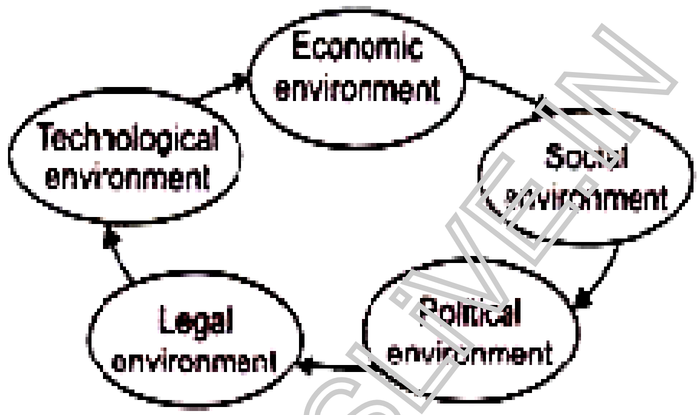
Threats refer to environmental changes that will hinder a firm's performance. Environmental awareness helps mangers identify various threats. It provides the business early warning signals to plan its future course of action.

3. **Tapping useful resources:-**
   Environment is a source of various resources to business enterprises. Environment provides inputs such as materials, machines, finance water, lab our etc. to the enterprises. The enterprise assembles these inputs. The enterprise in turn supplies the environment with its outputs such as goods and service for customers, taxes to govt. etc. thus environment act as a sources of inputs and an outlets for outputs. Therefore enterprise should design their policies making a provision for getting resources they need and giving what the environment need.
4. **Coping with rapid changes:-** Today's environment highly dynamic. To cope up with rapid changes in the environment, management must be dynamic and examine the environment and develop a suitable course of action to withstand competitors in the market.
5. **Assisting in planning and policy formulation:-** Environment provides both opportunities and threats to a business. Environmental monitoring gives vital information which can be taken as the basis for deciding the future course of action (planning) or framing guidelines for decision making (policy)

6. **Helps in improving performance**:- The future of environment is very much linked with what is happening the environment. Those enterprises which continuing monitor their environment and adapt suitable policies and business practices will improve their performance.

DIMENSIONS OF BUSINESS ENVIRONMENT

Dimensions or factors or elements of business environment include economic, social, political, technological and legal conditions. Influences of these factors are very relevant in the decision making process and for improving the performance of a business enterprises



Dimensions/Constituents of Business Environment

The various factors constituting the general environment of business is given below.

1. Economic Environment:-

Economic environment refers to all factors which have an economic impact on business. It includes tax and interest rates, insurance, foreign Investments, Corporate profits, Inflation rates, employment rates, foreign trade balances, liberlisation, privatization, Disinvestment etc. Economic environment has three aspect such as economic conditions, economic policies and economic system of the country. Scanning of economic environment helps a business enterprise to take advantage of these situations.

2. Social environment:-

Social environment means social and cultural factors that affect business directly or indirectly. These social factors include attitude of people cultural heritage, life style, customs and belief of people, literacy rate, birth and death rate, education system demographic distribution etc. Various social problems like concern for environment, demand for socially responsible making, need for safety in product etc also affect in business. The business should adapt a business strategy which should be suitable to socio cultural environment.

3. Technological Environment

Changes in technology have rendered several traditional production processes obsolete. Several new products with added value series have replaced conventional products. Introduction of digital cameras, Internet banking, ATM's, Phone banking, BPO are some of example for this. The preferences and likings of consumers change with technological advancement. Luxuries of yesterday become the necessities of today. Every business organization should made use of the advantage of technological innovations with a view to improve quality of product.

4. Political Environment

Political and government environment means attitude of government towards business. Stability of government and policies of ruling party has great impact on business. Political ideology ofgovt. ,philosophy of political parties, relation of state and central govt. are the elements of political environment. Governments.can restrict or prohibit certain business activities. So the working of the business should be in tune with the thinking of political parties and voters.

5. Legal Environment

Legal environment involves the legislation passed by the parliaments and state legislature. Legal environment can be defined as the legal enactments made by the government with a view to control the business. In India business is regulated with the help of the following legislation

(a) Trade Mark Act 1969, (b) Essential commodities Act -1955 (c) Companies Act 1956 (2012)

(d) Industrial dispute at -1947 (e) Consumer protection Act – 1986 (f) Factories Act -1948
(g) Industrial dispute Act -1947 (h)workmen Compensation Act 1923 etc.

ECONOMIC ENVIRONMENT IN INDIA

The year 1991 marks a turning point in India's economic history. Till 1991 India followed an economic policy with a socialist bias. Primacy of the public sector, control and regulation of private sector, protection to domestic industry through high custom duties, progressive taxation was the important features of socialist economic policy.

Since 1991 India has been going an economic reform. We now adopted a policy of liberlisation, privatization and globalization. We have started modernizing the county's industrial system. Unproductive controls are removed. Private investment including foreign investments is being encouraged. The policy iterates the objectives employment generation, reduction of socio economic disparities, removal of poverty and attainment of self-reliance

Features of 1991 Industrial policy:-

1. Licensing has been abolished for most of the industries
2. Most of the industries reserved for public sector under earlier policy were dereserved
3. Disinvestment was carried out in case of many public sector Industrial enterprises
4. Liberalize the inflow of direct foreign direct investment
5. Automatic permission was now granted for technology agreement s with foreign companies
6. FIPB(Foreign Investment Promotion Board) was set up to promote and channelize foreign investment in India

Liberlisation, Privatisation and Globalisation (LPG) became the guiding principles of the new industrial policy

(A) **Liberlisation:**- Liberlisation means liberating the economy from unnecessary controls and regulations. It means the end of license- permit- quota raj. . The old policy of permit, licenses, and quotas discouraged private enterprises. The new policy allowed industries to expand their capacity freely as per the need of the market. Through delicensing and decontrols it frees the economy from restrictions. Licenses and permits have been replaced by broad guidelines.It simplifies the procedures of export and import.

(B) **Privatisation:-** Under this policy the private sector is allowed to play a major role in economic activities. This is opposite to nationalization. Privatisation means private ownership, control and management of public sector units(PSU) passing to the private sector.it involves

(i) Disinvestment of a part of shares held by government in PSU
(ii) Dereservation of areas formally reserved for the public sector.

(C) **Globalisation:-** Globalisation means integrating the economy of a country with the world economy. It views entire world as a single market. Globalisation refers to the process of increasing economic integration and growing economic interdependence between the counties in the world economy. It is also known as neo-liberalism. Globalisation has four parameters

(i) Free flow of goods and services across nations
(ii) Free flow of capital among nations
(iii) Free flow of technology between nations
(iv) Free flow of Labour among different nations
(v)

IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY

The impact of economic reforms (LPG) are discussed below

1. **Increasing completion** As a result of change in the rules of industrial licensing and entry of foreign firms, competition for Indian firm has increased especially in service industries like banking, Insurance.

2. **More demanding customers:** Increased competition in the market gives the customers wide choice in purchasing better quality of goods and services. Customers demanding more as they are well informed.
3. **Rapidly changing technological environment:-**Increased competition forces the firms to develop new ways to survive and growth the market. Rapidly changing technological environment creates tough challenges before smaller firms.

4. **Need for developing human resources:-**The new market conditions require people with higher competence and greater commitment. Hence the need for developing human resources is very essential.
5. **Market Orientation:-** Earlier firms are production oriented marketing operations. but now, there is a shift to market orientation., where the firms have to study and analyses the market first and produce goods accordingly.
6. **Loss of Budgetary support to the public sector:-** The central government's budgetary support for financing the public sector outlays has declined over the years. Public sector units realizethat , in order to survive and growth they will have to be more equity than debt.

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CHAPTER-4

PLANNING

Planning is the fundamental function of management. it is the foundation on which other functions like organizing, staffing, directing and controlling activities are based. Planning lays down objectives and the steps necessary to achieve them. Planning is a continuous process. It is not exclusively the function of top management. Every manger in the organization performs some planning

MEANING AND CONCEPT

Planning is deciding in advance what is to be done, when is to be done and by whom. It is a process which involves thinking before doing. Forecasting is the essence of planning. Planning brides the gap between where we are and where we want to go. Planning is closely connected with creativity and innovation.

"Planning is deciding in the present what to do in the future" - Philip Kotler

" Planning is deciding in advance what is to be done. It involves the selection of objectives,policies,procedures andprogrammes from among alternatives" - M.E.Hurley

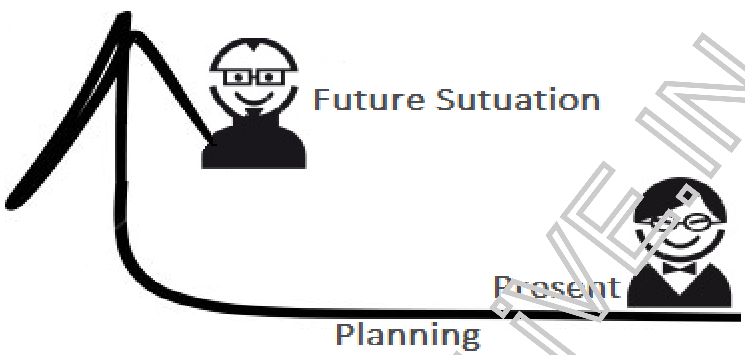
IMPORTANCE OF PLANNING

Planning is the first step in management. Planning is the foundation of most successful action of all enterprises. An enterprise can activate its objective only with systematic planning. Planning is important from the following perspectives

1. **<u>Planning provides directions:-</u>**The first step in planning is to fix objectives. These objectives will give direction to the activities to be performed.
2. **<u>Planning reduces the risk of uncertainty:-</u>** Planning is always forward looking Uncertainty and changes are inevitable and planning cannot eliminate them. But with the help of planning an enterprise can predict the future events and make due provision for them.
3. **<u>Planning reduces overlapping and wasteful activities:-</u>**Planning determines the activities of each departments and individuals. Planning enables unity of purpose and direction. Thus useless and redundant activities areminimized or eliminated.
4. **<u>Planning promotes innovative ideas:-</u>** Planning is a process of thinking before doing. Many new ideas come to the mind of a manager when he is planning. Thus it helps innovative and creative thinking.

5. **Planning facilitate decision making:-**Planning helps in decision making by selecting the best alternative among the various alternatives. Planning also involves forecasting of future conditions. Thus planning guides decision making
6. **Planning establishes standard for controlling:-**It is said that planning without control is meaningless and control without planning is blind. Planning provides the basis for control. Through planning, management lays down standards of performance. If the actual performance is not as per standard, the management should take corrective action. Hence planning facilitate controlling

*** **Planning bridges the gap between the present and future**



FEATURES/ NATURE OF PLANNING

The following are the important characteristics of planning

1. **Planning is goal oriented:-** Planning involves selecting the objectives and developing steps necessary to achieve them. Unless objectives are known a manager cannot do any planning

2.**Planning is the primary function of management(Primacy of management)**

It is the primary function of management because all other functions are performed within the framework of plan drawn.Without planning, there is nothing to organize, no one to coordinate and no need to control. Thus planning lays the foundation for other managerial function.

3. **Planning is pervasive:-**Planning is required at all levels of management as well as in all departments of the organization. Managers at the top level prepare long-term plans for the organization as whole, mangers at middle level formulate departmental plans nad mangers at lower level prepares operating plans.

4. **.Planning is Futuristic (forward looking):** - Planning is looking ahead and preparing for the future. Planning is concerned with deciding in the present what has to be done in future.
5. **Planning involves decision making:-**Planning is the process of choosing the best alternative among the alternative courses of action. There is no need of planning if there is only one way of doing things.
6. **Planning is continuous :-** Planning is continuous and never ending process. Plans need to be modified or new plans are to be undertaken. Thus planning is a continuous process.
7. **Planning is mental exercise:-** Planning is a mental exercise involving creative thinking and imagination. Planning requires a conscious determining of course of action on the basis of goals , facts and considered estimates. Thus planning is a process of thinking before doing.

LIMITATIONS OF PLANNING

Although planning is beneficial for the organization, in actual practice it has many limitations. Some of the limitations are as follows

1. **Planning leads to rigidity:-** Planning implies strict adherence to predetermined policies, procedures and programs. Thus planning limits the actions of people to be within the frame prescribes and therefore it is inflexible.
2. **Planning doesn't work in dynamic environment:-** The business environment is dynamic, nothing is constant. Besides internal factors, external factors like political, legal, economic and technological situations may also adversely affect planning.
3. **Planning reduces creativity:-** Planning is an activity which is done by top management. Employees are required to work strictly adhering to the predetermined policies and procedures. It restricts the individual's skill, initiative and creativity.
4. **Planning is expensive:-** Planning is a costly process. A good deal of time, energy and money is involved in gathering of facts and testing of various alternatives. Small and medium size concerns cannot afford these.
5. **Planning is time consuming process:-**Planning is a lengthy process and hence it is time consuming. It causes delay in taking decisions.
6. **Planning does not guaranteed success;-**The success of an enterprise is possible only when plans properly drawn up and implemented. Managers have a tendency to relay on previously tried and tested successful plans. But it is not always true because the scope of planning is limited in the case of organizations with rapid changing situations

PLANNING PROCESS (STEPS IN PLANNING)

Planning is deciding in advance what to do and how to do. The various steps involved in planning process are as follows

1. **Setting objectives:-** The first step in planning is setting objectives. Objectives are the goals which the management seeks to achieve. It must be specific and clear. The objectives should be for the organization as a whole and then must be broken down into departmental and sectional objectives
2. **Developing planning premises.-** Planning is done for the future , which is uncertain. Certain assumptions are made about the future environment. The assumptions are known as planning premises. It involves anticipation of future demands, competition, technology, economic conditions etc. Planning premises may be internal or external. It also can be controllable andnon-controllable.
3. **Identifying alternative courses of action:-** The next step is to search for and examine alternative courses of action. There probable consequences also be assessed.
4. **Evaluating Alternative courses:-** Evaluation of alternatives is the process of examining the benefits and defects of various alternatives . Generally the alternatives are analysed on the basis of costs, risks , benefits, after effects etc.
5. **Selecting the best alternative:-** After studying the advantages and limitations of all the alternatives the most suitable one is selected. In fact planning is the process of finding out this best alternative
6. **Implementing the plan:-** Implementation of plan means putting plans into action so as to achieve the objectives of the business. Proper implementation leads to the success of plan.
7. **Follow up action:-** Follow up is essential to appraises the effectiveness of planning. This will help in detecting shortcoming and taking remedial measures well in advance. Monitoring the plans is equally important to ensure that objectives are achieved.

TYPE OF PLANS

Plans can be classified into several types depending on the use and the length of the planning period. Planning can be classified into two broad categories

1. Single use plan **2. Standing plan**

Single use plan and standing plans are part of the operational planning process

Single Use plan (adhoc plan)

A single use plan is developed for a onetime event or project or particular situation. That is non-repetitive in nature. It ceases to exist once the purpose is over.

Eg:-programmes, budgets, projects, strategies etc.

Standing Plans:- Standing plans are used repeatedly in situation of similar nature. They are made to achieve uniformity and unity of efforts. That serves as ready guides to action.

Eg:- objectives, policies, procedures, rules etc.

OBJECTIVES:-

Objectives are defined as ends with which the management seeks to achieve by its operations. Objectives are' goals established to guide the effort of the concern each of its components'. Objective indicates the destination of the organization. They serve as a guide for overall business planning. Eg:- increasing the sale of a product by 5%.

STRATEGY :

Strategy means a specific programme of action for accomplishment of enterprise goals. Strategies are plans made in the light of the plans of the competitors. This comprehensive plan includes three dimensions

(a) Determining long term objectives (b) Adapting a particular course of action(c) Allocating resources necessary to achieve the objectives

Strategies are single use plans because they change frequently in accordance with market condition.

POLICY

Policies are general statements formulated to provide guidelines in decision making to various mangers. A policy tells the members of the organization to how to deal with a particular situation.

Every executive has to honour policy and his decisions should not violate it

2. Eg: 1.An enterprise may adopt a policy of employing only local people (2)Promotion is based on merit only.
   (3)It may have a policy not to employ any people over 60 years of age

PROCEDURE

Procedure is guide to action. They tell how a particular action is to be carried out. Procedure is a series of steps established to accomplish a specific project.it prescribes the exact manner in which the polices are to be implemented.

Eg: purchase procedure, procedure for recruitment.

METHOD

Methods provide detailed and specific guidelines for day to day action. It explains how each step in the procedure is to be carried out.It deals with a best way to carry out a particular task. It is a standing plan. Eg: methods of wage payments like piece rate system and Time rate

RULES

Rules are the prescribed guidelines for conducting an action. They specify what should be done or not to be done a given situation. A rule is rigid and definite leaving no scope for discretion or deviation. They facilitate discipline and uniformly in action in the organization.

Eg☹ 1). No smoking (2.) No admission without permission (3).Employees should report for work daily at 10 am

PROGRAMME

Programme includes all the activities necessary for achieving a given objective. Programmes are the combination of policies, procedures, rules and budgets. It is action based and result oriented.

Eg: (1) Manufacturing 1000 mobile phones in july 2015
(2) Introducing a new product in the market
(3) Opening 10 branches in the different part of the country.

BUDGET

'A budget is a plan as a statement of expected results expressed in numerical terms'

-Koontz and O Donnell

A budget is a plan for allocation of resources. It expressed in numerical terms such as rupees, product units and manpowers.It is an instrument both planning and control.Cash budget, production budget, sales budget and master budget are the important budgets in business.

DIFFERENCE BETWEEN POLICIES AND OBJECTIVES

POLICIES	OBJECTIVES
1.are the guidelines for activities to be done to attain the objectives	1.are the end results to be achieved by an organization
2.Policies determine how the work is to be done	2. objectives determine what is to be done
3.Policy is derived from objectives	3.Objective is derived from the mission of the organization
4.are formulated at all levels of management ie. Top,middle,lower	4.are determined by top management

DIFFERENCE BETWEEN POLICIES AND PROCEDURES

POLICIES	PROCEDURES
1.Policies are guide to thinking and decision making	1. procedures are guides to action
2.Expressed in the form of general statement	2.expressed in more specific terms
3.flexible	3. less flexible

3. It is derived from objectives of the enterprise	4.It is laid down to implement some policy
4. theoretical	5.practical

DIFFERENCE BETWEEN POLICIES AND RULES

POLICIES	RULES
1 General statement	1. specific statement
2.guide to decision making	2. guide to behavior
3.Flexible	3. rigid

DIFFERENCE BETWEEN RULES AND PROCEDURE

RULES	PROCEDURE
1. Rules is the instruction to do or not to do something	1.procedure are series of steps to be taken
2. Rules may or may not be part of procedure	2. procedure is not part of rules
2. Rigid	3. Flexible some extent
4. Guide to behaviour	4.Guide to action

DIFFERENCE BETWEEN RULES AND METHODS

RULES	METHODS
1.It aims to ensure discipline	1.It aims to increase efficiency in operations
2.Penality attached to violation	2. No penalty for violation
3.ragarded as official and authoritative	3. regarded as logical and rational

DIFFERENCE BETWEEN POLICIES AND STRATEGIES

POLICY	STRATEGY
1.Strategy is the general programme of action and deployment of emphasis and resources	1.Policy is a guide to thinking
2.single use plan	2.Standing plan
3.Stategy is formulated in the light of the plans of competitors	3. policy is formulated in the light of the objective of the firm itself.
4.Strategy is formulated to deal with unknown environment in the future	4.The situations to be faced by a policy are comparatively known

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