

# BUSINESS ENVIRONMENT

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# Meaning of Business Environment

Business Environment refers to those aspects of the surrounding of business enterprise which have influence on the functioning of business. An organization can survive and grow only when it continuously and quickly adapts to changing environment. We are living in the dynamic world which is undergoing a rapid change, because of coming up of new ideas, economic changes and new technology. **Keith Davis** has observed that business environment is the aggregate of all conditions, events and influences that surround and affect the business.

Components/types of Business Environment  
Or  
Factors affecting Business Environment

Internal Environment

- Financial Resources
- Physical and Human Resources
- Objectives of Business
- Managerial Policies
- Morale and Commitment of Human Resources
- Work Environment
- Brand and Corporate Image
- Labour Management Relationship
- Technological and R&D Capabilities
- Promoters' Vision

External Environment

Micro//Operating Environment

- Suppliers
- Customers
- Market intermediates
- Competitors
- Public

Macro/General Environment

- Economic
- Political
- Socio-cultural
- Technological
- Natural
- Demographic
- International/Global

Business Environment is of two types:

- Internal Environment
- External Environment

# Introduction and Meaning of Environmental Analysis

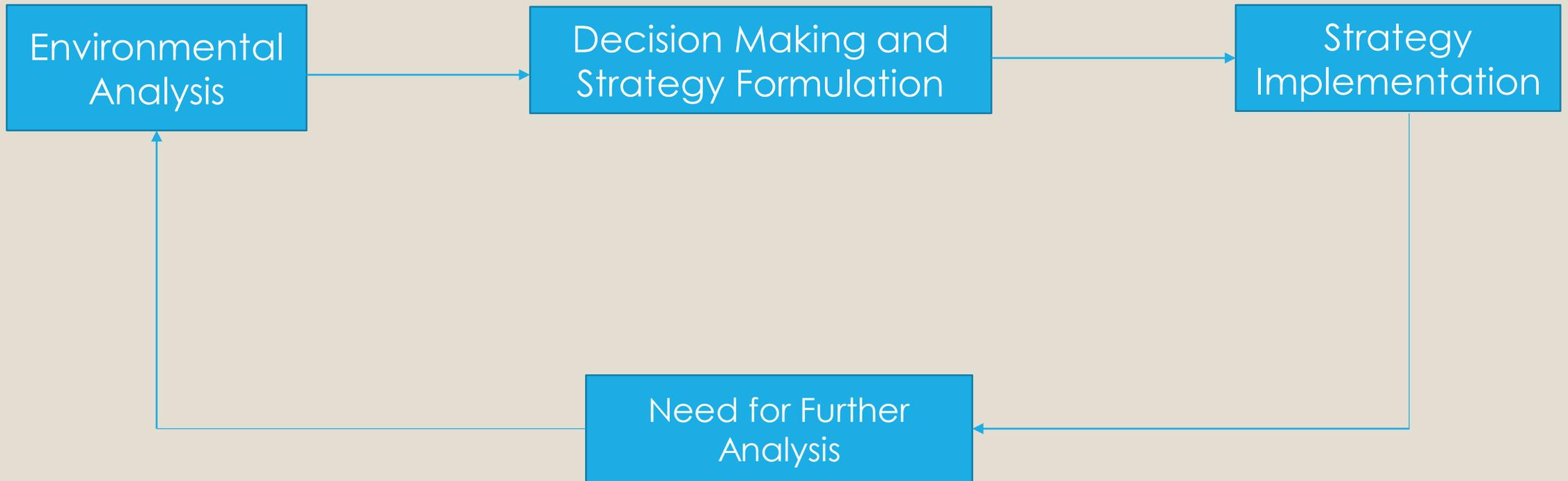
Environmental analysis is the study of various components of environment affecting the business, like economic factors, technological factors, political factors, global factors etc.

Environmental analysis becomes an important step towards corporate planning and business policy decisions. Corporate managers analyse the strengths, weaknesses, opportunities and threat that exist for their organization. With strength, a firm can capture the opportunity and become of its weakness, it can become the victim of threats in the environment.

# Objectives of Environmental Analysis

- To Understand Current and Probable Changes in Environment.
- To Provide Input for Decision Making.
- To Formulate Appropriate Strategy
- To Ensure Optimum Utilisation of Resources
- To identify the threats and opportunities of environment.
- To identify the strengths and weaknesses of the business.
- To diversify the business in new areas and to keep the business dynamic.
- To foresee the impact of various components of business environment.

# Environmental Analysis and Strategy Formulation



# Process of Environmental Analysis

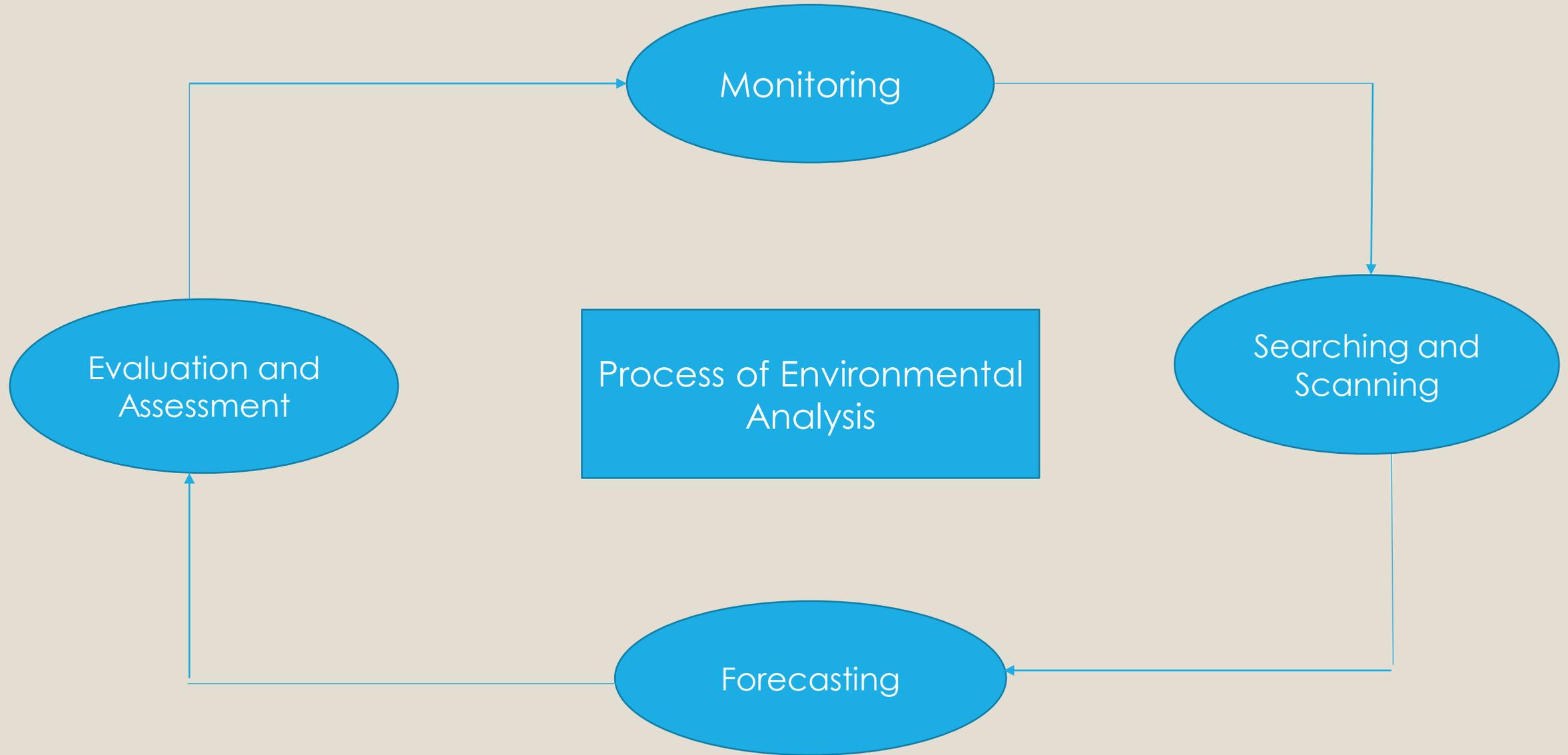
## 1. Monitoring:

- Newspapers
- Magazines and Journals
- Government Publications
- Institutional Publications
- International Publications

## 2. Searching and Scanning

## 3. Forecasting

## 4. Evaluation and Assessment



# SWOT as a Technique of Environmental Analysis

SWOT Analysis is an analysis undertaken by business firms to understand their external and internal environment. The term SWOT consists of four words:

S =Strengths

. W =Weaknesses

. O =opportunities

T. =Threats

A company can be strong or weak in respect of technology, finance, human resources, making capabilities and production facilities. The task is to make best use of its strengths and to reduce the weakness to the minimum level.

# Meaning of National Income

National Income refers to the market value of the goods and services produced by an economy during the period of one year, counted without duplication. National Income Committee defines national income as: “National Income estimate measures the value of commodities and services produced in an economy during a given period counted without duplication.”

# Meaning of Per Capita Income

Per Capita Income of a country refers to income per head of the population of that country, counted at current prices or at constant prices. It is simply a ratio between national income of the country and the population of that country. Per Capita Income of a country, say for the year 2016 will be estimated as:

Per Capita Income = National Income of 2016 ÷ Population of 2016

Per Capita Income of a country depends upon the national income and total population.

# Importance of Measuring National Income

National Income estimates are useful in the following ways:

- It helps us to estimate the level of economic development of nation.
- National income is used in computing per capita income. This per capita income is indicator of real economic growth and standard of living of population.
- National income data is used for analysing various phases of Business cycles.
- National income data is used for framing various policies by the government.
- It helps us in comparing economic growth of our country with other nations.
- Net domestic product of various States is used in analysing regional imbalances, i.e. comparing economic development of different states.

# Main Features of National Income of India

- More Dependence on Agriculture.
- Poor Growth Rate of Per Capita Income.
- Unequal Distribution.
- More Expenditure on Food.
- Low Standard of Living.
- Low Growth Rate of National Income.
- Unequal Growth Rate of Different Sectors.
- Difference in Income Levels in Urban and Rural Areas.
- Regional Disparity.
- More Income in Private Sector.
- Increasing Significance of Tertiary Sector.
- Increasing Share of Organised Sector.

# Meaning of Investment or Capital Formation

Increase in the stock of capital is called capital formation or investment. Capital formation is also known as increase in net investment. In the word **Nurkse**, “ The meaning of capital formation is that the society does not apply whole of its current productive activity to the needs and desires of immediate comes consumption, but directs a part of it to the marking of capital goods, tools and equipment, machines and transport facilities, plants and all other various form of real capital that can increase the efficiency of productive efforts.” Capital formation simply means increase in real productive assets of the economy, which leads to more production. It is that part of national wealth which is retained for used in further production.

# Gross Capital Formation

Gross capital formation mainly includes two items:

- Gross Fixed Capital Formation.
- Increase in Stocks.

1. Gross Fixed Capital Formation:

- (a) Construction.
- (b) Machinery and Equipment.
- (c) Livestock.

2. Increase in Stocks:

- (a) Raw Material.
- (b) Work-in-progress.
- (c) Finished Goods.
- (d) Other Stock.