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3

BUSINESS ENVIRONMENT



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Understanding the environment within which the business has to operate is very important for running a business unit successfully at any place. Because, the environmental factors influence almost every aspect of business, be it its nature, its location, the prices of products, the distribution system, or the personnel policies. Hence it is important to learn about the various components of the business environment, which consists of the economic aspect, the socio-cultural aspects, the political framework, the legal aspects and the technological aspects etc. In this chapter, we shall learn about the concept of business environment, its nature and significance and the various components of the environment. In addition, we shall also acquaint ourselves with the concept of social responsibility of business and business ethics.



OBJECTIVES

After studying this lesson, you will be able to:

- explain the meaning of business environment;
- identify the features of business environment;
- describe the importance and types of business environment;
- describe the recent developments in Indian Economy that have greatly influenced the working of business units in India;
- explain the concept of social responsibility of business;
- state the social responsibility of business towards different interest groups;
- explain the concept of business ethics; and
- understand the impact of Government Policy changes on Business and Industry.

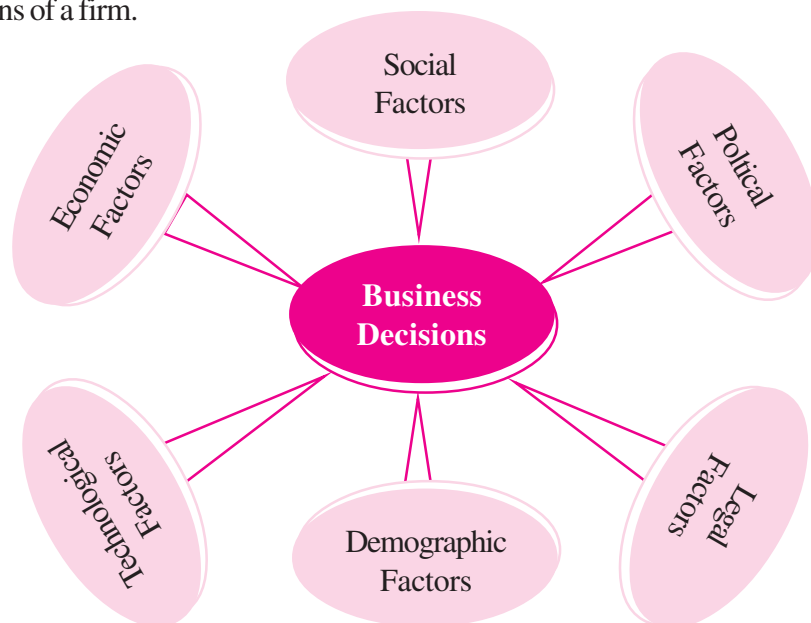
3.1 MEANING OF BUSINESS ENVIRONMENT



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As stated earlier, the success of every business depends on adapting itself to the environment within which it functions. For example, when there is a change in the government policies, the business has to make the necessary changes to adapt itself to the new policies. Similarly, a change in the technology may render the existing products obsolete, as we have seen that the introduction of computer has replaced the typewriters; the colour television has made the black and white television out of fashion. Again a change in the fashion or customers' taste may shift the demand in the market for a particular product, e.g., the demand for jeans reduced the sale of other traditional wear. All these aspects are external factors that are beyond the control of the business. So the business units must have to adapt themselves to these changes in order to survive and succeed in business. Hence, it is very necessary to have a clear understanding of the concept of business environment and the nature of its various components.

The term 'business environment' connotes external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise. These include customers, competitors, suppliers, government, and the social, political, legal and technological factors etc. While some of these factors or forces may have direct influence over the business firm, others may operate indirectly. Thus, 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, technical factors etc., which are uncontrollable in nature and affects the business decisions of a firm.



3.1.1 Features of Business Environment

On the basis of the above discussion the features of business environment can be summarised as follows.

- (a) Business environment is the sum total of all factors external to the business firm and that greatly influence their functioning.
- (b) It covers factors and forces like customers, competitors, suppliers, government, and the social, cultural, political, technological and legal conditions.
- (c) The business environment is dynamic in nature, that means, it keeps on changing.
- (d) The changes in business environment are unpredictable. It is very difficult to predict the exact nature of future happenings and the changes in economic and social environment. .
- (e) Business Environment differs from place to place, region to region and country to country. Political conditions in India differ from those in Pakistan. Taste and values cherished by people in India and China vary considerably.

3.1.2 Importance of Business Environment

There is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively. As stated above, the business environment is multifaceted, complex, and dynamic in nature and has a far-reaching impact on the survival and growth of the business. To be more specific, proper understanding of the social, political, legal and economic environment helps the business in the following ways:

- (a) **Determining Opportunities and Threats :** The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.
- (b) **Giving Direction for Growth :** The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.
- (c) **Continuous Learning :** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.
- (d) **Image Building :** Environmental understanding helps the business organisations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power.



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- (e) **Meeting Competition** : It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly.
- (f) **Identifying Firm's Strength and Weakness** : Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments.



INTEXT QUESTIONS 3.1

1. Define the term Business Environment in your own words.
2. Rectify the following sentences if found incorrect.
 - (a) The business environment is static in nature.
 - (b) Business environment includes factors external as well as internal to business firm.
 - (c) The changes in business environment are quite predictable.
 - (d) Business environment helps the firm to identify the opportunities for the business.

3.2 TYPES OF BUSINESS ENVIRONMENT

Confining business environment to uncontrollable external factors, it may be classified as (a) Economic environment; and (b) Non-economic environment. The economic environment includes economic conditions, economic policies and economic system of the country. Non-economic environment comprises social, political, legal, technological, demographic and natural environment. All these have a bearing on the strategies adopted by the firms and any change in these areas is likely to have a far-reaching impact on their operations. Let us have a brief idea about each of these areas of business environment.

3.2.1 Economic Environment

The survival and success of each and every business enterprise depend fully on its economic environment. The main factors that affect the economic environment are:

- (a) **Economic Conditions** : The economic conditions of a nation refer to a set of economic factors that have great influence on business organisations and their operations. These include gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market etc. All these help in improving the pace of economic growth.

(b) Economic Policies : All business activities and operations are directly influenced by the economic policies framed by the government from time to time. Some of the important economic policies are:

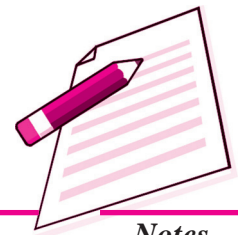
- (i) Industrial policy
- (ii) Fiscal policy
- (iii) Monetary policy
- (iv) Foreign investment policy
- (v) Export–Import policy (Exim policy)

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

Important Economic Policies

- (i) ***Industrial policy:*** *The Industrial policy of the government covers all those principles, policies, rules, regulations and procedures, which direct and control the industrial enterprises of the country and shape the pattern of industrial development.*
- (ii) ***Fiscal policy:*** *It includes government policy in respect of public expenditure, taxation and public debt.*
- (iii) ***Monetary policy:*** *It includes all those activities and interventions that aim at smooth supply of credit to the business and a boost to trade and industry.*
- (iv) ***Foreign investment policy:*** *This policy aims at regulating the inflow of foreign investment in various sectors for speeding up industrial development and take advantage of the modern technology.*
- (v) ***Export–Import policy (Exim policy):*** *It aims at increasing exports and bridge the gap between export and import. Through this policy, the government announces various duties/levies. The focus now-a-days lies on removing barriers and controls and lowering the custom duties.*

(c) Economic System : The world economy is primarily governed by three types of economic systems, viz., (i) Capitalist economy; (ii) Socialist economy; and (iii) Mixed economy. India has adopted the mixed economy system which implies co-existence of public sector and private sector.



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3.2.2 Non-economic Environment

The various elements of non-economic environment are as follow:

- (a) **Social Environment :** The social environment of business includes social factors like customs, traditions, values, beliefs, poverty, literacy, life expectancy rate etc. The social structure and the values that a society cherishes have a considerable influence on the functioning of business firms. For example, during festive seasons there is an increase in the demand for new clothes, sweets, fruits, flower, etc. Due to increase in literacy rate the consumers are becoming more conscious of the quality of the products. Due to change in family composition, more nuclear families with single child concepts have come up. This increases the demand for the different types of household goods. It may be noted that the consumption patterns, the dressing and living styles of people belonging to different social structures and culture vary significantly.
- (b) **Political Environment :** This includes the political system, the government policies and attitude towards the business community and the unionism. All these aspects have a bearing on the strategies adopted by the business firms. The stability of the government also influences business and related activities to a great extent. It sends a signal of strength, confidence to various interest groups and investors. Further, ideology of the political party also influences the business organisation and its operations. You may be aware that Coca-Cola, a cold drink widely used even now, had to wind up operations in India in late seventies. Again the trade union activities also influence the operation of business enterprises. Most of the labour unions in India are affiliated to various political parties. Strikes, lockouts and labour disputes etc. also adversely affect the business operations. However, with the competitive business environment, trade unions are now showing great maturity and started contributing positively to the success of the business organisation and its operations through workers participation in management.
- (c) **Legal Environment :** This refers to set of laws, regulations, which influence the business organisations and their operations. Every business organisation has to obey, and work within the framework of the law. The important legislations that concern the business enterprises include:
- (i) Companies Act, 1956
 - (ii) Foreign Exchange Management Act, 1999
 - (iii) The Factories Act, 1948
 - (iv) Industrial Disputes Act, 1972
 - (v) Payment of Gratuity Act, 1972

- (vi) Industries (Development and Regulation) Act, 1951
- (vii) Prevention of Food Adulteration Act, 1954
- (viii) Essential Commodities Act, 2002
- (ix) The Standards of Weights and Measures Act, 1956
- (x) Monopolies and Restrictive Trade Practices Act, 1969
- (xi) Trade Marks Act, 1999
- (xii) Bureau of Indian Standards Act, 1986
- (xiii) Consumer Protection Act, 1986
- (xiv) Environment Protection Act
- (xv) Competition Act, 2002

Besides, the above legislations, the following are also form part of the legal environment of business.

- (i) **Provisions of the Constitution :** The provisions of the Articles of the Indian Constitution, particularly directive principles, rights and duties of citizens, legislative powers of the central and state government also influence the operation of business enterprises.
- (ii) **Judicial Decisions :** The judiciary has to ensure that the legislature and the government function in the interest of the public and act within the boundaries of the constitution. The various judgments given by the court in different matters relating to trade and industry also influence the business activities.
- (d) **Technological Environment :** Technological environment include the methods, techniques and approaches adopted for production of goods and services and its distribution. The varying technological environments of different countries affect the designing of products. For example, in USA and many other countries electrical appliances are designed for 110 volts. But when these are made for India, they have to be of 220 volts. In the modern competitive age, the pace of technological changes is very fast. Hence, in order to survive and grow in the market, a business has to adopt the technological changes from time to time. It may be noted that scientific research for improvement and innovation in products and services is a regular activity in most of the big industrial organisations. Now a days infact, no firm can afford to persist with the outdated technologies.
- (e) **Demographic Environment :** This refers to the size, density, distribution and growth rate of population. All these factors have a direct bearing on the demand for various goods and services. For example a country where population rate is



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high and children constitute a large section of population, then there is more demand for baby products. Similarly the demand of the people of cities and towns are different than the people of rural areas. The high rise of population indicates the easy availability of labour. These encourage the business enterprises to use labour intensive techniques of production. Moreover, availability of skill labour in certain areas motivates the firms to set up their units in such area. For example, the business units from America, Canada, Australia, Germany, UK, are coming to India due to easy availability of skilled manpower. Thus, a firm that keeps a watch on the changes on the demographic front and reads them accurately will find opportunities knocking at its doorsteps.

- (f) **Natural Environment :** The natural environment includes geographical and ecological factors that influence the business operations. These factors include the availability of natural resources, weather and climatic condition, location aspect, topographical factors, etc. Business is greatly influenced by the nature of natural environment. For example, sugar factories are set up only at those places where sugarcane can be grown. It is always considered better to establish manufacturing unit near the sources of input. Further, government's policies to maintain ecological balance, conservation of natural resources etc. put additional responsibility on the business sector.



INTEXT QUESTIONS 3.2

1. What is meant by Exim policy?
2. Identify the types of non-economic environment in the following cases:
 - (a) Demand for new clothes increases during festive session.
 - (b) Computer has outdated typewriter.
 - (c) Coca-Cola is now being freely sold in the Indian market.
 - (d) Sugar factories are being set up where sugarcane is grown abundantly.
 - (e) Availability of skilled labour in a particular region.

3.3 RECENT DEVELOPMENTS IN INDIAN ECONOMY

The economic environment of business in India has been changing at a fast rate mainly due to the changes in the economic policies of the government. At the time of independence, the Indian economy was basically agrarian with a weak industrial base. To speed up the industrial growth and solve various economic problems, the government took several steps like state ownership on certain categories of industries, economic planning, reduced role of private sector, etc. The Government adopted several control

measures on the functioning of private sector enterprises. All these efforts resulted a mixed response. There was growth in net national product, per capita income and development of capital goods sector and infrastructure. But rate of industrial growth was slow, inflation increased and government faced a serious foreign exchange crisis during eighties. As a result, the government of India introduced a radical change in economic policies in 1991. This policy abolished industrial licensing in most of the cases, allowed private participation in most industries, disinvestment was carried out in many public sector industrial enterprises and opened up the economy considerably. Foreign Investment Promotion Board was set up to channelise foreign capital investment in India. Let us discuss the developments under three heads, viz., (a) Liberalisation, (b) Privatisation, and (c) Globalisation.

(a) Liberalisation

Liberalisation refers to the process of eliminating unnecessary controls and restrictions on the smooth functioning of business enterprises. It includes:

- (i) abolishing industrial licensing requirement in most of the industries;
- (ii) freedom in deciding the scale of business activities;
- (iii) freedom in fixing prices of goods and services;
- (iv) simplifying the procedure for imports and exports;
- (v) reduction in tax rates; and
- (vi) simplified policies to attract foreign capital and technology to India.

Through this liberalisation process, Indian Economy has opened up and started interacting with the world in a big way. This has resulted in easy entry of foreign business organisations in India. This has further resulted in stiff competition and efficiency. Ultimately, liberalisation has helped us in achieving a high growth rate, easy availability of goods at competitive rates, a healthy and flourishing stock market, high foreign exchange reserve, low inflation rate, strong rupee, good industrial relations, etc.

(b) Privatisation

Privatisation refers to reducing the role of public sector by involving the private sectors in most activities. Due to the policy reforms announced in 1991, the expansion of public sector has literally come to a halt and the private sector registered fast growth in the post-liberalised period. The issues of privatisation include:

- (i) reduction in the number of industries reserved for the public sector from 17 to 8 (reduced further to 3 later on) and the introduction of selective competition in the reserved area;



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- (ii) disinvestment of shares of selected public sector industrial enterprises in order to raise resources and to encourage wider participation of general public and workers in the ownership in business;
- (iii) improvement in performance through an MOU system by which managements are to be granted greater autonomy but held accountable for specified results.

In India, as a result of these steps, the post liberalisation phase has witnessed a massive expansion of the private sector business in India. You can have an idea of their expansion from the fact that the total capital employed in top 500 private sector companies rose from Rs. 1,39,806 crores in 1992-93 to Rs. 2,34,751 crores in 1994-95 (an expansion of 68% in just two years).

(c) Globalisation

Globalisation means 'integrating' the economy of a country with the world economy. This implies free flow of goods and services, capital, technology and labour across national boundaries. To achieve these objectives of globalisation, the government has adopted various measures such as reduction in custom duties, removal of quantitative restrictions or quotas on exports and imports, facilitating foreign investment and encouragement of foreign technology. These measures are expected to achieve a higher rate of growth, enlargement of employment potential, and reduction of regional disparities.

(d) Business Environment

Impact of Government Policy changes on Business & Industry with special reference to liberalization, privatisation and globalisation.

1. **Rapidly Changing Technological Environment :** After the introduction of new economic policy the companies were forced to adopt the world class technology. The reason is increase in competition.
2. **More Demanding Consumers :** Prior to government policy changes, consumers purchased goods and services without much inquiry. But now-a-days products are produced considering the demands of customers. Customers have started buying good quality goods and services.
3. **Increasing Competition :** Today, Indian companies have to face competition not only from the internal market but also from the MNCs. If the companies could not face the competition, they had to leave the market.
4. **Necessity for Change :** Before the government policy changes, the businesses were more stable. Policies once laid down were used to continue for a long time. But these days business environment is undergoing rapid changes so business enterprise have to modify their policies from time to time.

- 5. Necessity for Developing Human Resources :** Prior to government policy changes, Indian companies were managed by inadequately trained personnel. New market situations demanded highly skilled and competent human resources. Hence, Indian companies started training and developing their human skills.



INTEXT QUESTIONS 3.3

1. What is meant by Globalisation?
2. Write 'L' for Liberalisation, 'P' for Privatisation and 'G' for Globalisation.

(a) Freedom in fixing prices of goods and services.	<input type="checkbox"/>
(b) Disinvestment of shares of public sector industrial enterprises.	<input type="checkbox"/>
(c) Reduction in sales tax rates.	<input type="checkbox"/>
(d) Reduction in custom duties.	<input type="checkbox"/>
(e) Reduction in number of industries reserved for public sector.	<input type="checkbox"/>



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3.4 SOCIAL RESPONSIBILITY OF BUSINESS

Every business enterprise is an integral part of the society. It uses the scarce resources of the society to continue and grow. Hence, it is important that no activity of business is injurious to the long run interests of the society. However, it is observed that, in practice, there are a few socially undesirable aspects of business such as, polluting the environment, non-payment of taxes, manufacturing and selling adulterated products, giving misleading advertisement and so on. This has resulted in the development of the concept of social responsibility of business whereby the owners and managers of business are made conscious about the responsibilities of their business towards the community and its customers, workers etc.

3.4.1 Concept of Social Responsibility

Social responsibility of business means obligation to act in a manner which will serve the best interests of the society. Social obligation of a business is different from legal obligation legal obligation is observed because of the provisions or fear of law, but social obligations will help to take voluntary efforts on the part of business to fulfill the need of the society. By fulfilling the social obligations, business creates an environment which is conducive to its success.

Case for Social Responsibility

Business has social responsibility because of the following reasons :

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1. **Self Interest :** Business can succeed in the long run by fulfilling the demands of the society. The people who have good environment, education and opportunities can become good employees, customers and neighbours of the business.
2. **Balancing of Social Power :** The decisions and activities of a business can affect the consumers, employees, environment and community. So it has social power. If social power and responsibility are not balanced, the business might use its power against the interests of consumers, employees, environment and community.
3. **Creation of Society :** Business is a creation of society as it uses the resources provided by the society. So it should utilise the resources for the benefit of people. A successful business can built a happy and satisfied community and employees.
4. **Social Awareness :** Now-a-days consumers are aware of the quality of various products, the market price of various products, the name of reputed companies supplying the product etc. Therefore, they should be given fair treatment by the business. Otherwise, they will organise and form Consumer Associations. This will compel the business to perform social obligations.
5. **Public Image :** If the business follows social obligations, public image will improve. The public will have credibility to the concern. Otherwise, conflict will arise between the business and society.
6. **Moral Justification :** Every business organisation uses human resources, physical resources and capital of the society. Roadways, power and water supply are used by business firms. The products of business units are sold to the society. Therefore, it is the moral responsibility of business to contribute for the well being of the society.

3.4.2 Responsibilities Towards Different Interest Groups

It needs to be noted that the responsibilities of those who manage the business cannot be limited to the owners. They have to take into account the expectations of other stakeholders like the workers, the consumers, the government and the community and public at large. Let us now look at the responsibilities of the business towards all these groups.

- (a) **Responsibility towards the shareholders or owners :** The shareholders or owners are those who invest their money in the business. They should be provided with a fair return on their investment. You know that in case of companies it is in the form of dividends. It has to be ensured that the rate of dividend is commensurable with the risk involved and the earnings made. Besides dividends, the shareholders also expect an appreciation in the value of shares. This is governed primarily by company's performance.

Funds required by the business are provided by investors. The responsibility of business towards owners or investors are as follows :

1. To ensure safety of investment.
2. To provide regular, correct and adequate information on the financial aspects.
3. To provide fair and regular dividend.
4. To ensure capital appreciation.
5. To protect the assets of the business.

- (b) Responsibility towards the Employees :** A business enterprise must ensure a fair wage or salary to the workers based on the nature of work involved and the prevailing rates in the market. The working conditions must be good in respect of safety, medical facilities, canteen, housing, leave and retirement benefits etc. They should also be paid reasonable amount of bonus based on the business earnings. Preferably, there should also be a provision for their participation in management

Without employees no organisation can survive. The brain, efforts, talent and expertise of employees bring success to business concerns. The responsibility of business towards its employees are as follows :

1. To provide reasonable and fair wages and salaries.
2. To maintain good working conditions for the good health of the workers.
3. To provide services such as housing, medical care, recreation etc.
4. To develop a sense of belonging.
5. To win the cooperation of the workers by creating better human relations in the business.

- (c) Responsibility towards the Consumers :** A business enterprise must supply quality goods and services to the consumers at reasonable prices. It should avoid adulteration, poor packaging, misleading and dishonest advertising, and ensure proper arrangement for attending to customer complaints and grievances.

The products produced by the business are used by consumers. The responsibility of business towards consumers are as follows :

1. To ensure regular supply of goods/services.
2. To provide goods at reasonable prices.
3. To provide goods which will help to meet the needs of consumers of different classes.



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4. To provide goods of standard quality.
5. To ensure that advertisements made are true.
6. To provide prompt and continuous service.

(d) Responsibility towards the Government : A business enterprise must follow the guidelines of the government while setting up the business. It should conduct the business in lawful manner, pay the taxes honestly and in time. It should not indulge in any corrupt practices or unlawful activities.

The responsibilities of business towards government are as follows :

1. To abide by the laws of the nation.
2. To pay taxes honestly and in time.
3. To refrain from corrupting government employees.
4. To discourage the tendencies of concentration of economic power and monopoly.
5. To adapt fair dealings in foreign trade.

(e) Responsibility towards the Community : Every business is a part and parcel of our community. So it should contribute towards the general welfare of the community. It should preserve and promote social and cultural values, generate employment opportunity and contribute towards the upliftment of weaker sections of the society. It must take every step to protect the physical and ecological environment of the society. It should contribute to the community development programmes like public health care, sports, cultural programmes.

Business should work for the community. The main responsibility of business towards the public are as follows :

1. To protect the environment from pollution.
2. To provide better employment opportunities.
3. To preserve social and cultural values.
4. To help the weaker sections of the society like disabled persons, widows, scheduled tribes etc.
5. To promote national integration.

Looking at the importance of the social responsibilities of business towards various groups, it would have been better if the companies act provided for the reporting of the social activity in the annual report of the companies. However, a few large companies

have been voluntarily reporting their social performances in their Annual Reports regularly. The prominent among them are Cement Corporation of India, Indian Oil Corporation, Tata Steels, Asian paints and ITC. These reports reveal that companies are becoming eco-friendly and conscious of their role in community development.

3.4.3 Business and Environmental Protection

The health of plants and animals depend on the quality of environment in which they live. Rapid industrialisation, evolvment of fast food centres and traffic have caused much damage to the environment. Forests and wild life are declining very fast because of the construction of large number of factories and apartments for their employees. Therefore, air, noise and water pollution increased. Governments have framed laws to prevent pollution. Pollution Control Boards have been set up by Central and State governments.

Causes of Environmental Pollution

Environmental pollution arises due to the following causes :

1. **Air Pollution :** Air pollution is the result of a combination of factors which decreases the air quality. Carbon monoxide emitted by automobiles contributes to air pollution.
2. **Water Pollution :** Chemical waste from factories is polluting the water bodies of every country. Throwing of plastic bags filled with flowers and other materials plastic bottles etc. pollute our rivers, streams and lakes.
3. **Land Pollution :** Excessive useage of pesticides in agriculture has damaged our devine land. People go for shopping every day and have the habit of buying in plastic bags. People throw these plastic bags here and there causing pollution of soil.
4. **Noise Pollution :** Running of factories is a source of noise pollution. Automobiles also cause noise pollution. Noise pollution may cause mental disorder, loss of hearing, malfunctioning of heart etc.

Need for Pollution Control

Pollution control is required because of the following reasons :

1. To reduce safety hazards and to ensure safety of life.
2. To reduce risk of liability to pay compensation to people.
3. To protect public health.
4. To reduce inconveniences like water pollution (which will affect fishes and other water plants), human health hazards such as breathing difficulty, irritation in eyes etc.
5. To save cost of cleaning the land and machines.



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3.5 BUSINESS ETHICS

Business Ethics means the business practices which are desirable from the point of view of the society. i.e. the moral principles which should be followed by business.

Business ethics are concerned with determining what is right and what is wrong while doing the business. By ethics we mean the business practices which are desirable from the point of view of the society.

A few examples of ethical business practices are :

1. To charge fair prices from the customer.
2. To use fair weights for commodities.
3. To pay taxes to government correctly and promptly.
4. To ensure supply of safe products for the public.
5. To give fair treatment to the workers.
6. Not to indulge in unfair trade practices, mal practices, black marketing and hoarding.

3.5.1 Elements of Business Ethics

The elements of business ethics are as follows :

1. Business ethics create selfimposed discipline on the part of the business firms.
2. Business ethics make a business honest and responsible.
3. Business ethics aims at fair and reasonable treatment to customers, employees, suppliers etc.
4. Business ethics co-exist with law which will help in the perfection of the conduct of life.
5. Business ethics covers all business practices which are desirable from the point of view of the society.



INTEXT QUESTIONS 3.4

1. State the meaning of 'business ethics'.
2. Identify the group towards which the business is responsible.
 - (a) When the organisation pays the taxes in time.
 - (b) When the company produces good quality products and sells it at reasonable price.



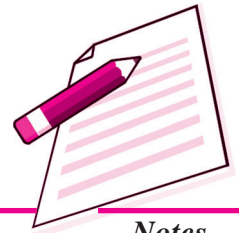
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- (c) When the company organises sport meet for the general public for a particular locality.
- (d) When the company declares dividend at a higher rate.
- (e) When the organisation provides proper medical facility to the staff members.
3. Multiple choice questions:
- i. Identify from the following the ethical practices in business.
 - a) Exploitation of workers
 - b) Selling adulterated food.
 - c) Honesty in dealing with consumers
 - d) Sale of duplicate goods
 - ii. Which of the following is not ethical practice :
 - a) Prompt payment of taxes by business
 - b) Sell products with correct measurement
 - c) Black marketing
 - d) Providing fair wages to workers.

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WHAT YOU HAVE LEARNT

- The term 'business environment' connotes external forces, factors and institutions that are beyond the control of the business and they affect the functioning of business enterprises. These include customers, competitors, suppliers, government, and the social, political, legal and technological factors etc. Business environment is multifaceted, complex, and dynamic in nature. The changes in business environment are unpredictable. It differs from place to place, region to region and country to country.
- **Importance of Business Environment:** The interaction between the business and its environment helps in identifying the opportunities for and threats to the business. It opens up new frontiers of growth for the business firms. Environmental analysis makes the task of managers easier in dealing with business challenges. It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly keeping in mind its own strength and weakness.
- Types of Business Environment
 - (a) *Economic environment* : (i) Economic Conditions; (ii) Economic Policies; (iii) Economic System

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- (b) **Non-economic environment** : (i) Social Environment; (ii) Political Environment; (iii) Legal Environment; (iv) Technological Environment; (v) Demographic Environment; (vi) Natural Environment
- Recent Developments in Indian Economy
 - (a) **Liberalisation**: Liberalisation refers to the process of eliminating unnecessary controls and restrictions on the smooth functioning of business enterprises.
 - (b) **Privatisation** : Privatisation refers to reducing the role of public sector by involving the private sectors in most activities.
 - (c) **Globalisation** : Globalisation means ‘integrating’ the economy of a country with the world economy. This implies free flow of goods and services, capital, technology and labour across national boundaries.
- **Social Responsibility of Business** : Social responsibility of business refers to the obligation of business enterprises to adopt policies and plans of actions that are desirable in terms of the expectation, values and interest of the society. It ensures that the interests of different groups of the public are not adversely affected by the decisions and policies of the business.
- **Social Responsibilities Towards Different Groups**
 - (a) Responsibility towards the shareholders or owners
 - (b) Responsibility towards the Employees
 - (c) Responsibility towards the Consumers
 - (d) Responsibility towards the Government
 - (e) Responsibility towards the Community
- **Business Ethics** : Business ethics are the moral principles, which guide the behaviour of businessmen or business activities in relation to the society. It provides certain code of conduct to carry on the business in a morally justified manner.
- Social responsibility means obligation of business to care for the interests of society.
- Arguments in favour of social responsibility : self interest, balancing of social power, creation of society, social awareness, public image and moral justification.
- Business has the responsibility towards investors like ensuring safety of investment, provide correct information, provide fair dividend and to protect the assets of the business.
- Business has the responsibility towards consumers like ensure regular supply of goods, provide goods at reasonable price, provide goods to meet the needs of consumers of different classes, provide goods of standard quality etc.

Business Environment

- Responsibility towards employees are to provide fair wage/salaries, maintain good working conditions, provide housing and recreation facilities, to win the cooperation of workers etc.
- Responsibility of business towards government include to pay taxes promptly, to refrain from corruption, to adapt fair dealings in foreign trade and to discourage the tendencies concentration of economic power.
- Responsibility towards community include protection of environment, better employment opportunities, pressure social and cultural values, help weaker sections of the society and to promote national integration.
- Air pollution, water pollution, land pollution and noise pollution are the cause of environmental pollution.
- Business ethics means moral behaviour on the part of businessmen.
- Elements of business ethics include – discipline, honesty, fair and reasonable treatment, perfection in the conduct of life and desirable business practices.



KEY TERMS

Business Ethics	Legal Environment	Social Environment
Demographic Environment	Liberalisation	Social Responsibility of Business
Economic Environment	Natural Environment	Technological Environment
Economic Policy	Political Environment	
Globalisation	Privatisation	



TERMINAL EXERCISE

Very Short Answer Type Questions

1. State any two features of business environment.
2. Mention the different types of business environment.
3. List the various elements of non-economic environment of business.
4. State any two effects of liberalisation of Indian economy.
5. What is meant by the term ‘ethics’?
6. What do you mean by social responsibility of business?
7. What do you understand by ‘business ethics’?
8. State any two responsibilities of business towards consumers.

MODULE - 1

Business Around Us



Notes

MODULE - 1

Business Around Us



Notes

Business Environment

9. Mention any two causes of environmental pollution.
10. State any two elements of business ethics.
11. Give two examples of business ethics.

Short Answer Type Questions

12. How does demographic environment of business influence the business activities.
13. What are the steps Government of India has taken as a part of its liberalisation process.
14. Explain the effect of political environment in the normal functioning of business enterprises.
15. Why should a business enterprise be socially responsible?
16. What are the effects of Globalisation of Indian economy?
17. Briefly explain the concept of social responsibility.
18. Enumerate the responsibilities of business towards employees.
19. Give any four arguments in favour of social responsibility.
20. What do you mean by the term 'business ethics'.

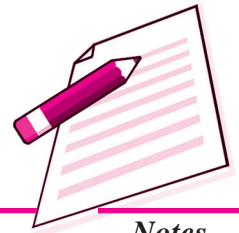
Long Answer Type Questions

21. Describe the importance of business environment for the business firm.
22. Explain any two non-economic environment of business.
23. What is meant by social responsibility of business? State the responsibilities of business towards the community.
24. Describe in brief the economic environment of business.
25. Explain the social responsibility of business towards different groups.
26. What are the responsibilities of business towards investors, consumers and employees?
27. What do you mean by social responsibility? Explain some points favouring social responsibility of business.
28. What do you mean by business ethics? Give three examples. Which are the elements of business ethics? Explain briefly.
29. **“Knowledge of Business Environment helps the businessmen to understand the opportunities for and threats to the business.” In the light of this statement explain the importance of Business Environment that helps to Businessmen to prepare future plans.**
30. **“Business has to take into account the expectations of various stakeholders like the workers, the consumers, the Government and the community.” Comment on this statement with the explanation of Social Responsibilities of business.**



ANSWERS TO INTEXT QUESTIONS

- 3.1** 2. (a) The business environment is dynamic in nature.
 (b) Business environment includes factors external to business firm.
 (c) The changes in business environment are quite unpredictable.
 (d) Correct statement.
- 3.2** 1. Exim policy regulates the import and export of our country. Through this policy Government decides the duties or taxes on import of goods and services.
2. (a) Social environment
 (b) Technological environment
 (c) Political environment
 (d) Natural environment
 (e) Demographic environment
- 3.3** 1. Globalisation means integrating the economy of a country with world economy. It implies free flow of goods and services, capital, technology and labour across the national boundaries.
2. (a) L (b) P (c) L (d) G (e) P
- 3.4** 1. Business ethics means the relationship between the society on one hand and business activities on the other. The objectives, practices, techniques and behaviour of business must be in conformity to the standards set by the society.
2. (a) Responsibility towards Government
 (b) Responsibility towards Consumer
 (c) Responsibility towards Community
 (d) Responsibility towards Owners/shareholders
 (e) Responsibility towards Employees
3. (i) c (ii) c



Notes



DO AND LEARN

1. Visit the market place, post offices, banks and other places of your locality and make note of the changes that have taken place due the change in Information Technology.
2. Find out the raw materials being available in abundance in your area. How many industries or business units are set up based on it? Prepare a report.



ROLE PLAY



Notes

1. Satish belongs to a rural area. Once he had gone to the nearest town. He saw there a very big and well maintained park. Inside the park he read a small board - 'This Park is maintained by KCS Ltd'. He tried to recall where did he read this name before? He remembered that the charitable hospital of his village was also run by KCS Ltd. He was filled with curiosity. He decided to find out more about all this. One day he met his friend's father. Mr. K. Mohan.

Satish : Good Morning Uncle.

K. Mohan : Good Morning Satish? How are you?

Satish : Very fine! How about you?

K. Mohan : Great! What brings you here son?

Satish : Uncle, if I remember rightly you are in a company called KCS Ltd, right?

K. Mohan : You are right. I am working as General Manager (Administration). But why?

Satish : Uncle! Today when I went to the park, I observed that the company KCS Ltd. maintains the park and so also the charitable hospital in my village. Well, why should a company divert its attention from its regular activities and indulge in an activity which only increases its expense?

K. Mohan : Well, all these are taken up by the company as a part of its responsibility towards the community, and it is called Social Responsibility of a company.

Satish : Social Responsibility? What is that?

(Mr. K.Mohan explained to Satish about the concept of social responsibility of business.) Now, you are required to continue the conversation by assuming a role for yourself and one for your friend.

2. Rahul, a trade union leader, discussed in one of the meetings with his followers, about the problems they faced while performing duties in the factory.

Workers : Informed Rahul about problems of working hours, bad working conditions, housing, recreation etc.

Rahul : No problem, I will talk to the manager and shall explain him about social responsibilities of business towards workers, society, Government and so on.

Assuming the discussion of Rahul & Manager of factory please continue the discussion on social responsibility, which manager is performing to discharge his duties towards different interest groups.