

Subject: Business Economics

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Paper Title: Business Strategy & Ethics

Unit No.: 2 (Two)

Title: Environmental Analysis

Lecture No: 2 (Two)

Title: External Environment: An Introduction

FAQs

Q1. What is a business?

Ans: business is always owned by someone. This can just be one person, or thousands. So a business can have a number of different types of ownership depending on the aims and objectives of the owners. Most businesses aim to make profit for their owners. Profits may not be the major objective, but in order to survive a business will need make a profit in the long term. Some organizations however will be 'not-for-profit', such as charities or government-run corporations.

Q2. What is a business environment?

Ans: The word 'Business Environment' has been defined by various authors as follows,
"Business Environment encompasses the -climate' or set of conditions, economic, social, political or institutional in which business operations are Conducted."—Arthur M. Weimer.

Q3. What is called system approach?

Ans: In original, business is a system by which it produces goods and services for the satisfaction of wants, by using several inputs, such as, raw material, capital, labor etc. from the environment.

Q4. What are Social Responsibility Approach and Creative Approach?

Ans:

- Social Responsibility Approach: In this approach business should fulfill its responsibility towards several

categories of the society such as consumers, stockholders, employees, government etc.

•Creative Approach: As per this approach, business gives shape to the environment by facing the challenges and availing the opportunities in time. The business brings about changes in the society by giving attention to the needs of the people.

Q5. What are features of business environment?

Ans:

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

(a)Business environment is the sum total of all factors external to the business firm and that greatly influences 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.

Q6. Explain Significance of Business Environment.

Ans:

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 organizations 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.

e) Meeting Competition: It helps the firms to analyze the competitors' strategies and formulate their own strategies accordingly.

Identifying Firm's Strength and Weakness: Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments.

Q7. write a short note on types of business environment.

Ans:

There are two types of business environments.

1. Economic Environment

2. Non- Economic Environment

(a) Economic environment

- Economic Conditions
- Economic system
- Economic Policies

(b) Non-Economic Environment

- Social Environment
- Political Environment

- Legal Environment
- Technological Environment
- Demographic Environment
- Natural Environment

Q8 . Explain Economic Policies.

Ans: 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:

- industrial policy
- Fiscal policy
- Monetary policy
- Foreign investment policy
- Export –Import 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.

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.

Q9. What is The External Environment?

Ans:

Managers are not prepared to act wisely in steering a company in a different direction or altering its strategy until they have a deep understanding of the company's situation.

2. This understanding requires thinking strategically about two facets of the company's situation:

a. The industry and the competitive environment in which the company operates and the forces acting to reshape that environment and the forces acting to reshape this environment.

b. The company's own market position and competitiveness - its resources and capabilities, its strengths and weaknesses vis-à-vis rivals, and its windows of opportunities.

3. Managers must be able to perceptively diagnosis a company's external and internal environments to succeed in crafting a strategy that is an excellent fit with the company's situation, is capable of building competitive advantage, and promises to boost company performance – the three criteria of a winning strategy.

4. Developing company strategy begins with a strategic appraisal of the company's external and internal situations to form a strategic vision of where the company needs to head, then moves toward an evaluation of the most promising alternative strategies and business models, and finally culminates in a choice of strategy.