



ST. LAWRENCE HIGH SCHOOL



A JESUIT CHRISTIAN MINORITY INSTITUTION

Study Material No. 1

Sub: Business Studies

Class XII

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Topic: Business Environment

Chapter – 3

Meaning of Business Environment:

Business environment refers to forces and institutions outside the firm with which its members must deal to achieve the organisational purposes. Here

- Forces = economical, social, political, technological etc
- Institutions = suppliers, customers, competitors etc

It includes all those constraints and forces external to a business within which it operates. therefore,

- The firm must be aware of these external forces and institutions and
- The firm must be nagged keeping in mind these forces and institutions so that the organisational objectives are achieved.

Features of Business Environment

1. Totality of external forces: Business environment is the sum total of all the forces/factors external to a business firm.

2. Specific and general forces: Business environment includes both specific and general forces. Specific forces include investors, competitors, customers etc. who influence business firm directly while general forces include social, political, economic, legal and technological conditions which affect a business firm indirectly.

3. Inter-relatedness: All the forces/factors of a business environment are closely interrelated. For example, increased awareness of health care has raised the demand for organic food and roasted snacks.

4. Dynamic: Business environment is dynamic in nature which keeps on changing with the change in technology, consumer's fashion and tastes etc.

5. Uncertainty: Business environment is uncertain as it is difficult to predict the future environmental changes and their impact with full accuracy.

6. Complexity: Business environment is complex which is easy to understand in parts separately but it is difficult to understand in totality.

7. Relativity: Business environment is a relative concept whose impact differs from country to country, region to region and firm to firm. For example, a shift of preference from soft drinks to juices will be welcomed as an opportunity by juice making companies while a threat to soft drink manufacturers.

IMPORTANCE OF BUSINESS ENVIRONMENT

1. Identification of opportunities to get first mover advantage: Understanding of business environment helps an organization in identifying advantageous opportunities and getting their benefits prior to competitors, thus reaping the benefits of being a pioneer.

2. Identification of threats: Correct knowledge of business environment helps an organization to identify those threats which may adversely affect its operations. For example, Bajaj Auto made

considerable improvements in its two wheelers when Honda & other companies entered the auto industry.

3. Tapping useful resources: Business environment makes available various resources such as capital, labour, machines, raw material etc. to a business firm. In order to know the availability of resources and making them available on time at economical price, knowledge of business environment is necessary.

4. Coping with Rapid changes: Continuous study/scanning of business environment helps in knowing the changes which are taking place and thus they can be faced effectively.

5. Assistance in planning and policy formulation: Understanding and analysis of business environment helps an organization in planning & policy formulation. For example, ITC Hotels planned new hotels in India after observing boom in tourism sector.

6. Helps in improving performance: Correct analysis and continuous monitoring of business environment helps an organization in improving its performance.

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