



3

BUSINESS ENVIRONMENT

Once a business is established, to successfully run and sustain it requires finance for this it depends on financial institutions; accept the norms and culture in which it operates for this it depends on the society; understand the requirements of the market for this it depends on the customers; upgrade itself with the latest developments for which the latest technological aspects are required. Also, it needs to understand the government regulations and other legal aspects. Thus there are many factors and dimensions that affect the business. They are combined under a single concept referred to as business environment.

The business environment consists of the economic aspect, the socio-cultural aspects, the political framework, the legal aspects, the technological aspects etc. Understanding the environment within which the business has to operate is very important as it influences every aspect, be it its nature, its location, the prices of products, the distribution system, or the personnel policies. 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.



LEARNING OUTCOMES

- identifies various components of business environment and their likely impact on a business;
- discusses the changes in components of business environment for a business;
- describe vulnerability of business to changes in external environment.



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- identifies various economic and promotional activities undertaken by Government and their likely effect on business.
- discusses the various CSR initiatives by companies in real life.
- explains how business may become more environment friendly.
- reflects on making socially ethical responsible choices in business.

3.1 MEANING OF BUSINESS ENVIRONMENT

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 really 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 impact 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 affect 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 summarized as follows.



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- (a) **Sum total of all factors:** Business environment is the sum total of all factors external to the business firm and that greatly influences their functioning.
- (b) **Micro and Macro factors:** It covers micro or specific factors that affect business directly such as investors, competitors, customers. Macro or general factors include social, political, cultural, legal, government and technological aspects.
- (c) **Inter-relatedness:** All the micro and macro factors are inter-dependent and inter-related to one another.
- (d) **Dynamic:** The business environment is dynamic in nature, that means, it keeps on changing.
- (e) **Uncertainty:** 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.
- (f) **Complex:** 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 helps in identifying opportunities and threats to the business. It helps the business enterprises for meeting the challenges successfully through future planning and decision making. For example, competition increases with the entry of new firms in the market.
- (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. For example, seeing the potential of mobile phones growth Reliance launched the Jio.
- (c) **Continuous Learning:** Environmental analysis makes the task of managers



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easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predictable changes in the realm of business. For example, the new mobile companies- Redmi and MI have expanded their market shares by adding new features to the android phones.

- (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.
- (e) **Meeting Competition:** It helps the firms to analyze the competitors' strategies and formulate their own strategies accordingly. For example, Pepsi and coke pricing strategy.
- (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. For example, development of all the latest gadgets.



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) The business environment includes factors external as well as internal to business firm.
 - (c) The changes in business environment are quite predictable.
 - (d) The business environment helps the firm to identify new opportunities for 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



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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 of each of these areas of business environment.



Fig.: 3.1

3.2.2 ECONOMIC ENVIRONMENT

Economic environment consists of type of economic system, nature and structure of the economy, foreign trade and foreign investment policies. The survival and success of each and every business enterprise depends 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.

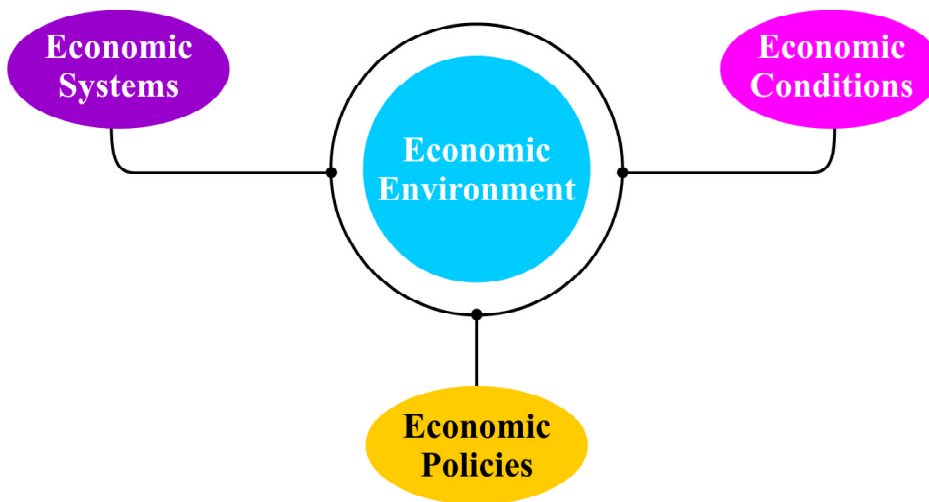


Fig.: 3.2

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- (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, and (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.
- (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.

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 with reference to 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 exports and imports. 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.

3.2.2 NON ECONOMIC ENVIRONMENT

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

- (a) **Social Environment:** The social environment of business includes social factors like customs, traditions, values, beliefs, poverty, literacy, life expectancy rate



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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, flowers, 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 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 operations 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 have started contributing positively to the success of the business organisation and its operations through workers' participation in management.

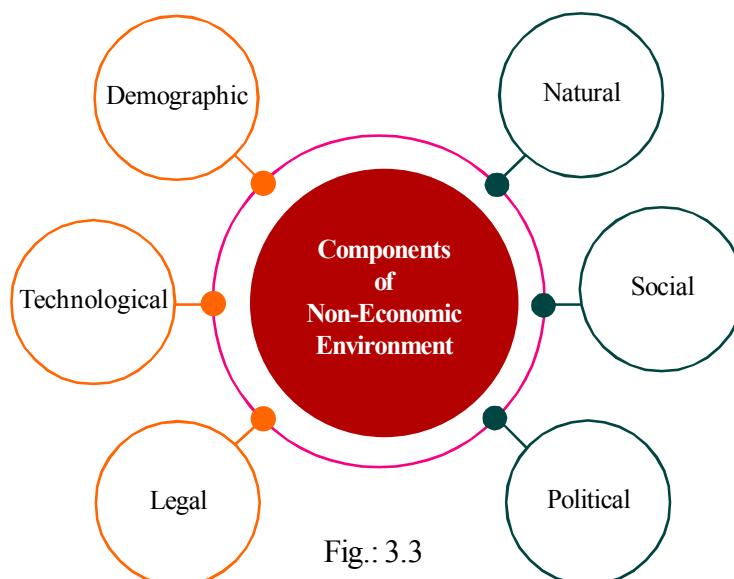


Fig.: 3.3

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- (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 law. The important legislations that concern the business enterprises include:
- (i) Companies Act, 2013 and Companies Act 1956
 - (ii) Foreign Exchange Management Act, 1999
 - (iii) The Factories Act, 1948
 - (iv) Industrial Disputes Act, 1947
 - (v) Payment of Gratuity Act, 1972
 - (vi) Industries (Development and Regulation) Act, 1951
 - (vii) Prevention of Food Adulteration Act, 1954, repealed by. The food safety and standards Act, 2002
 - (viii) Essential Commodities Act, 2002
 - (ix) The Standards of Weights and Measures Act 1976 replaced by the legal metrology Act, 2009 replaced by. The competition Act. 2002
 - (x) Monopolies and Restrictive Trade Practices Act, 1969
 - (xi) Trade Marks Act, 1999
 - (xii) Bureau of Indian Standards Act, 2016
 - (xiii) Consumer Protection Act, 2019
 - (xiv) Environment Protection 1986
- (d) **Technological Environment:** Technological environment includes 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. Internet, World Wide Web, android phones have brought about a technological revolution. 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.



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- (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 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 skilled labour in certain areas motivates the firms to set up their units in such areas. 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 doorstep.
- (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.



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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 of 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 the eighties. As a result, the government of India introduced a radical change in economic policies in 1991. These changes 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 channelize foreign capital investment in India. Let us discuss the developments under three heads, viz.,

- (a) Liberalisation,
- (b) Privatisation, and
- (c) Globalisation.

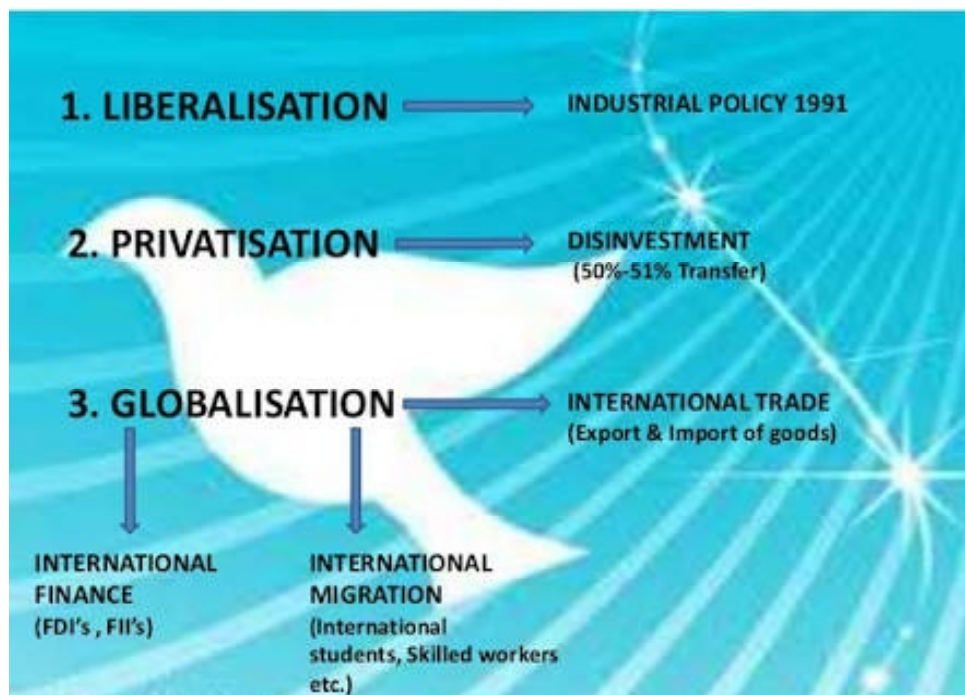


Fig.: 3.4



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(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 requirements 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 sector 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-liberalisation 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;
- (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 (Memorandum of Understanding) 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

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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.

3.3.1 IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS & INDUSTRY

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 quit 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.

3.3.2 GOODS AND SERVICE TAX (GST)

Keeping in view the theme of 'One nation and one tax', the government of India, implemented the Goods and Services Tax (GST) from July 1, 2017. It is an indirect tax

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levied on the supply of goods and services and has replaced many indirect tax laws that previously existed in India. This tax, apart from being a source of revenue for growth, also plays a key role in making the State accountable to its taxpayers. Effective taxation ensures that public funds are effectively employed in fulfilling social objectives for sustainable development.

GST provides for the following benefits to the business and economy:

1. eliminates tax on tax;
2. is technology driven with simple and online procedures;
3. has brought down the cost of goods and services;
4. speeds up the taxation procedures;
5. has tremendously reduced the number of compliances attached ;
6. unorganised sector can now be regularised .

3.3.2 MAKE IN INDIA

Make in India was launched by Government of India in September 2014 as part of the nation-building initiatives. Its sole purpose is to facilitate investment, encourage innovation, boost up skill development and invite various commercial sectors from all around the world to engineer their products in India and sell them anywhere they wish. This new national program is led by the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, Government of India. The Make in India aims at utilising the existing Indian talent base, creating additional employment opportunities and empowering secondary and tertiary sectors.



Fig.: 3.5

Source: commons.wikimedia.org/wiki/file:make in-india....jpg

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The focus of Make in India programme is on 25 sectors. These include: automobiles, aviation, chemicals, IT & BPM, pharmaceuticals, construction, defence manufacturing, electrical machinery, food processing, textiles and garments, ports, leather, media and entertainment, wellness, mining, tourism and hospitality, railways, automobile components, renewable energy, biotechnology, space, thermal power, roads and highways, and electronics systems. The programme also aims at improving India's rank on the Ease of Doing Business by eliminating the unnecessary laws and regulations, making bureaucratic processes easier, making the government more transparent, responsive and accountable.

Aims and objectives of Make in India

- i. Expansion of job opportunities;
- ii. Ease of doing business;
- iii. Upgradation of technology;
- iv. Eliminating unnecessary laws and restrictions;
- v. Improving India's ranking in the Global market;
- vi. Making bureaucratic procedures easier;
- vii. Making Government transparent, responsive and accountable;
- viii. Boost up India's economic growth

3.3.3 DIGITAL INDIA

Another new campaign launched by Government of India in July 2015 aims in connecting rural areas with high speed internet connectivity and improve digital literacy. In order to make available Government's services to all citizens electronically, digital India was initiated by department of Electronics and information technology. A digitally empowered society can improve the economic and social aspects of its people by providing access to health, education, financial services, information and technology. Digital India consists of three core components:

(a) Creating digital infrastructure, (b) delivering government services digitally and (c) digital literacy.

Benefits of Digital India

- i. Introduction of new services like e-education, e-health, e-sign, digi locker
- ii. People empowerment;

- iii. Easy access to information;
- iv. improved quality of services;
- v. Less documentation and formalities;
- vi. Generation of employment in the IT sectors
- vii. Boost to industry

**INTEXT QUESTIONS 3.3**

1. What is meant by Globalisation?
2. Write 'L' for Liberalisation, 'P' for Privatisation and 'G' for Globalisation against the correct statement, in the box.
 - (a) Freedom in fixing prices of goods and services.
 - (b) Disinvestment of shares of public sector industrial enterprises.
 - (c) Reduction in sales tax rates.
 - (d) Reduction in custom duties.
 - (e) Reduction in number of industries reserved for public sector.
- Q3. With what objectives was the 'Make in India' programme launched?

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-term 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. Also known as corporate social responsibility (CSR), it refers to the organisations conducting their business ethically keeping their interest

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towards social, cultural, economic and environmental issues. Social obligation of a business is different from legal obligation. Legal obligation is observed because of the provisions or fear of law, but social obligation will help to take voluntary efforts on the part of business to fulfill the needs of the society. By fulfilling the social obligations, business creates an environment which is conducive to its success. The Government of India requires large companies to spend at least 2 % of their profits every year on CSR.

Social responsibility is important because of the following reasons:

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 for the concern. Otherwise, conflict will arise between the business and the 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.

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



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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 the 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.

To sum up, responsibility towards owners or investors:

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 as 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 co-operation of the workers by creating better human relations in the business.



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(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 responsibilities of business towards the 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.
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 on 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 on 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 opportunities 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 and cultural programmes. Business should work for the community. The main responsibility of business towards the public are as follows:



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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, evolvement of fast food centres and increasing 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 the 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 mainly 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 usage of pesticides in agriculture has damaged our divine 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.



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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 health hazards 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.

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.

**Note**

3.5.1 ELEMENTS OF BUSINESS ETHICS

The elements of business ethics are as follows:

1. Business ethics create self-imposed discipline on the part of the business firms.
2. Business ethics make a business honest and responsible.
3. Business ethics aim 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 on time.
 - (b) When the company produces good quality products and sells it at reasonable price.
 - (c) When the company organises sports 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. Tick the right choice.
 - 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

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Note

- ii. Which of the following is not an ethical practice :
- a) Prompt payment of taxes by business
 - b) Sell products with correct measurement
 - c) Black marketing
 - d) Providing fair wages to workers.



TERMINAL EXERCISE

Very Short Answer 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.
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 Questions

1. How does demographic environment of business influence the business activities.
2. What are the steps Government of India has taken as a part of its liberalisation process.
3. Explain the effect of political environment in the normal functioning of business enterprises.
4. Why should a business enterprise be socially responsible?
5. What are the effects of Globalisation of Indian economy?
6. Briefly explain the concept of social responsibility.

**Note**

7. Enumerate the responsibilities of business towards its employees.
8. Give any four arguments in favour of social responsibility.
9. What do you mean by the term 'business ethics' ?

Long Answer Questions

1. Describe the importance of business environment for the business firm.
2. Explain any two non-economic features of business environment.
3. What is meant by social responsibility of business? State the responsibilities of business towards the community.
4. Describe in brief the economic environment of business.
5. Explain the social responsibility of business towards different groups.
6. What are the responsibilities of business towards investors, consumers and employees?
7. What do you mean by social responsibility? Explain some points favouring social responsibility of business.
8. What do you mean by business ethics? Give three examples. Which are the elements of business ethics? Explain briefly.
9. "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 the Businessmen to prepare future plans.
10. "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 an 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.

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Note

- (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 the 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 with 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

DO AND LEARN

1. Visit the market place, post offices, banks and other places of your locality and make notes of the changes that have taken place due to 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.

**Note****ROLE PLAY**

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.

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Note

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

Assuming the discussion between Rahul and the Manager of the factory please continue the dialogue on social responsibility.

WHAT HAVE YOU LEARNT

