

F.Y.B.Com Sem I

Commerce-I – Business Environment

Unit-1 Introduction to Business Environment

Topics covered:

- Business: Meaning, Definition, Nature & Scope.
Business Objectives -Steps in setting business objectives, classification of business objectives.
Reconciliation of Economic and Social Objectives
- Business Environment: Meaning, Characteristics, Scope and Significance, Inter-relationship between Business and Environment, Components of Business Environment: Internal and External Environment
- Environmental Analysis: Importance, Factors, PESTEL Analysis, SWOT Analysis.VUCA World and its impact on business

What is Business?

- A business is defined as an organization or enterprising entity engaged in commercial, industrial, or professional activities
- Businesses can be for-profit entities or they can be non profit organizations that operate to fulfill a charitable mission or further a social cause.
- There are various forms of a business, such as a limited liability company (LLC), a sole proprietorship, a corporation, and a partnership.
- Businesses can range from small operations operating in one industry to large operations operating in many industries around the world.

Definitions of Business

- **Stephenson** defines business as, "The regular production or purchase and sale of goods undertaken with an objective of earning profit and acquiring wealth through the satisfaction of human wants."
- According to **Dicksee**, "Business refers to a form of activity conducted with an objective of earning profits for the benefit of those on whose behalf the activity is conducted"
- **Lewis Henry** defines business as, "Human activity directed towards producing or acquiring wealth through buying and selling of goods."
- Thus, the term business means continuous production and distribution of goods and services carried out to earn profits under uncertain market conditions

Characteristics of Business

Economic Activity

Business necessarily has to be an economic activity. But what exactly is an economic

activity? Any activity that gives a monetary return is an economic activity. For example, if your friend's father picks you up and drops you at college every day, he is doing this act out of kindness. But if he starts a transportation service of picking up and dropping by charging money then it's an economic activity.

Production or Trading of Good or Services for Sale

If a business plans on selling a product, Goods are mostly consumable items. It has to either manufacture that product or purchase it and add a profit margin to it and sell it further. Business is interested in every activity that is concerned with the production or purchase of goods for selling,

this makes it one of the most important characteristics of a business. Services for sale include transportation, housekeeping, and security.

Sale or Exchange of Goods and Services

The third and crucial one of the characteristics of business after production or procurement is to sell that product for the money. The way to sell a product or service is by launching it in the market or to offer it for sale. A sale or exchange must take place between the seller and the buyer.

Regularity in Dealings

Business is a repeatable economic activity that generates money. For example, if you sell your old bike and it generates money. Also, it's an economic activity but is you doing this on a regular basis? No. As it has no regularity in it, it cannot be accepted as a business activity. Similarly, there is a dealer who deals in the purchase and sells of second-hand bikes. For him, it's a business activity as there is regularity in his dealing. A single transaction of purchase for sale cannot be classified as a business.

Profit Earning

The sole purpose of business is the maximization of profit. It steps into the market with the main objective of earning a profit. For the survival of business in a [market](#), generating profit is extremely necessary. If a business can't produce profit, it is expected of it to go downhill financially. Therefore the businessman does all the possible tricks to maximize its profits by increasing the volume of sales or decreasing the costs

Risk Factor

It is well known "*Higher the risks, higher the return*". Business attracts risk. While initiating business it is not guaranteed 100% that the business will be successful. There is an anticipation that there might be [demand](#) for its product or service in the market. But the market is always dwindling the subject to risk. The business may even earn profit but the amount of profit earned may vary.

Uncertainty of Returns

Businessmen invest huge capital in their activities to sustain and extract profit from the business. As we discussed the risk above, it is very uncertain as to what amount the profit will be earned. Often there are situations where there is no return of profit. There are always chances of losses in the business activities.

Legal Activity

The business has to be legal and lawful. Business is an extremely important activity for a country but it is not above the law. Every economic activity has to be within the limits of the law. The country's legislation puts clauses on the functioning of the business to control its activities.

Functions of Business

A business enterprise performs many functions which can be classified under the following headings: Production, Marketing, Finance and Personnel Human Resource. In some business organisations, there are separate departments to look after these functional areas. It may be noted that these functions are interdependent and inter-related. For instance, production department depends upon marketing department to sell its output and marketing departments depends upon production department for the products of required quality to satisfy its customers.

Thus, there must be proper integration of various functional areas of business to achieve its purpose. This can be achieved by the management of the enterprise by effective planning, organization, direction and control. The salient functions of a business are:

(i) **Production Function:** It is concerned with the transformation of inputs like manpower, materials, machinery, capital, information and energy by business into specified outputs as demanded by the market and society. The production department is entrusted with so many activities such as production planning and control, quality control, procurement of materials and

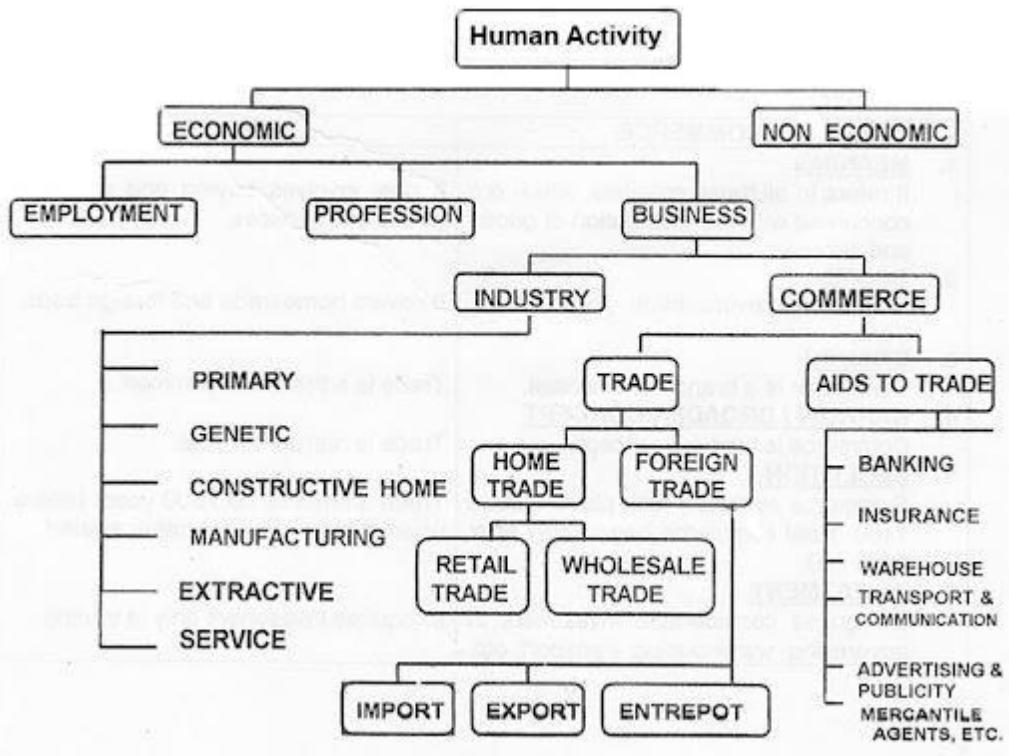
storage of materials.

(ii) **Marketing Function:** This is focused on the distribution of goods and services produced by the business' production department. It can perform this function efficiently only if it is able to satisfy the needs of the customers. For this purpose, the marketing department guides the production department in product planning and development. It fixes the prices of various products produced by the business. It promotes the sale of goods through advertisement and sales promotion devices such as distribution of samples and novelty items, holding contests, organizing displays and trade exhibitions, etc.

(iii) **Finance Function:** This function is concerned with arrangement of sufficient capital for the smooth running of business. It also assists in the proper utilization of resources. It considers business decisions such as sources of finance, investment of funds in productive ventures, and levels of inventory of various items, etc.

(iv) **Personnel Function:** This is another important function which business must perform in order to achieve business purpose. It is concerned with finding suitable employees, giving them training, fixing their remuneration and motivating them. The quality of human resource working in the enterprise is a critical factor in the achievement of business purpose. Therefore, it is necessary that the employee is highly motivated and satisfied with the terms and conditions of service offered by the business enterprise.

Scope of Business:



Scope of Business

The scope of business is very broad. It covers a large number of activities which may be looked into from two perspectives, namely:

Industry and Commerce

(A) **Industry:** The word “Industry” refers to the business activities which are linked with the extraction and production or manufacturing of products. The activities of extraction, production, conversion, processing or fabrication of products are described as industry. These products of an industry may fall under any one of the following three categories:

(i) **Consumers Goods:** Goods used by final consumers are called consumers goods. Example of consumer goods Laptop, handset, bags, pencil, biro, cleaner, edible Oils, Cloth, Jam, Television, Radio, Motor Car, Refrigerator, etc.

(ii) **Capital Goods:** Goods used in the production of other goods are described as capital

goods. Steel produced by steel plant is used for fabrication into a variety of products such as motor cars, scooters, rail Locomotive engines, ships, surgical instruments, blades, etc. Similarly machine tools and machinery used for manufacturing other products also come under this heading.

(iii) Intermediate Goods: There are certain materials which are the finished products of one Industry and become the intermediate products of other industries. A few examples of this kind are the copper industry, the finished products of which are used in manufacturing Electrical Appliances, Electricity Wires, Toys, Baskets, Containers, and Buckets. Broadly speaking,

Industrial activities may be classified into primary and secondary which are explained in the following lines.

Primary Industries: Primary industries include the followings as listed below:

Extractive Industries: In extractive industries, the industries extract or draw their products from natural sources such as earth, sea, air. The products of such industries are generally used by other industries such as manufacturing and construction industries for producing finished goods. Farming, mining, lumbering hunting, fishing, etc., are some of the examples of extractive industries.

Genetic Industries: Genetic simply means parentage or heredity. Genetic industries are engaged in breeding plants, and animals for their use in further reproduction. For breeding plants, the seeds and nursery are typical examples of genetic industries. In addition, the activities of cattle-breeding farms, poultry farms and the hatchery come under the category of genetic industries.

Secondary Industries:

Secondary industries include the followings as listed below:

Manufacturing Industries: These are engaged in producing goods through the creation of what is known as 'form utility' such industries are engaged in the conversion or transformation of raw materials or semi-finished products into finished products. The products of extractive industries generally become the raw-materials of manufacturing industries. Factory production is the outcome of manufacturing industry. Manufacturing industries may take any one of the following forms: Analytical, Synthetic, Processing, and Assembly Line.

(i) Analytical: This is a situation where the basic material is analysed and separated into a number of products. Oil refining is an example of analytical industry. The crude oil is extracted from beneath the earth and is processed and separated into petrol, diesel, kerosene, gasoline, lubricating oil, etc.

(ii) Synthetic: In this type of industries at least two materials are mixed together in the manufacturing operations to obtain some new products. Products like soap, cement, paints, fertilizers, cosmetics are the products of this industry. A new product will be derived from the combination of two or more products mixed together.

(iii) Processing: In this type of industry, raw materials are processed through a series of manufacturing operations making use of analytical and synthetic methods. Textiles,

sugar and steel are examples of this category of industries.

(iv) Assembly line: In assembly line industry, the finished product can be produced only after various components have been made and then brought together for final assembly to be converted into final or finished products. Production of automobiles, watches, televisions, bicycles, railway wagons, etc., are the typical examples of the industry.

Construction Industries: These types of industries are focused on the making of constructing of buildings, bridges, dams, roads, canals, etc. These industries use the products of manufacturing industries such as Iron and Steel, Cement, Lime, Mortar, etc. and also the products of extractive industry such as stone, marble, granite, etc. one of the remarkable feature of these industries is that their products are not sold in the sense of being taken to the markets. They are constructed and fabricated at fixed sites.

(B) Commerce: It is an interchange of goods or commodities, especially on a large scale between different countries (foreign commerce) or between different parts of the same country (domestic commerce) trade; business. It can also refer to the process of buying and selling. It covers wholesale, retail, import, export trade and all those activities which facilitate or assist in such buying and selling such as storing, grading, packaging, financing, transporting, insuring, communicating, warehousing, etc. The main functions of commerce is to remove the hindrance of (i) persons through trade; (ii) place through transportation, insurance and packaging; (iii) time through warehousing and storage; and (iv) knowledge through salesmanship, advertising, etc., arising in connection with the distribution of goods and services until they reach the final consumers. The concept of commerce usually covers two important areas:

Trade & Aids to trade (Service business)

(i) Trade: The term trade refers the act or process of buying, selling, or exchanging commodities, at either wholesale or retail, within a country or between countries. It is also the process of transferring of goods and services. It is the central activity around which the ancillary functions such as banking, transportation, insurance, packaging, warehousing and advertising are surrounded. Trade can be categorized into two classifications:

(a) Domestic Trade: this is also refers to as internal trade. It is internal because, it only focuses on buying and selling of goods within the boundaries of a country and the payment for the same is made in national or local currency either directly or through the banking system. Domestic trade can be further sub-divided into wholesale trade - Buying of goods in large quantities from producers and selling the same in small quantities to retailers and retail trade – activities involved in the selling of commodities directly to consumers, i.e. an industry that sells primarily to individuals, not corporations

(b) Foreign Trade: it is also known as international trade. It refers to the exchange of goods and services between two or more countries. International trade involves the use of foreign currency (called foreign exchange) ensuring the payment of the price of the exported goods and services to the domestic exporters in domestic currency, and for making payment of the price of the imported goods and services to the foreign exporter

in that country's national currency (foreign exchange). International trade allows expansion of markets for both goods and services that otherwise may not have been available.

(ii) Service businesses: These are usually regarded as Aids to Trade. As already highlighted earlier, there are certain functions such as banking, transportation, insurance, warehousing, advertising, communication, etc. which constitute the main auxiliary functions helping trade both internal and international. These auxiliary functions are discussed below.

(a) Banking: A financial institution licensed as a receiver of deposits. There are two types of banks: commercial/retail banks and investment banks. In most countries, banks are regulated by the national government or central bank. Banks provide a device through which payments for goods bought and sold are made thereby facilitating the purchase and sale of goods on credit. Commercial banks are mainly concerned with managing withdrawals and deposits as well as supplying short-term loans to individuals and small businesses.

(b) Transportation: it is any device used to move business items from one location to another. Common forms of transportation include planes, trains, automobiles, and other two-wheel devices such as bikes or motorcycles. It involves carrying goods from producers to wholesalers, retailers, and finally customers. It provides the wheels of business. It has linked all parts of the world together thereby enhancing international trade.

(c) Warehousing: A warehouse is a planned space for the storage and handling of goods and material. There is generally a time lag between the production and consumption of goods. This problem can be solved by storing the goods in a warehouse. Storage creates time utility and removes the hindrance of time in trade. It performs the useful function of holding the goods for the period they move from one location to another. Thus, warehousing assists in discharging the

function of storing the goods both for manufacturers and traders for such time till they decide to move the goods from one point to another.

(d) Insurance: In any economy, the insurance industry plays significant roles in helping to smooth the business environment and shoring up investors' confidence. Insurance industry provides intangible products in the same way as banks, hotels, etc. therefore the firms in the industry are regarded as service companies. Insurance provides a cover against the loss of goods in the process

of transit and storage. An insurance company performs a useful service of compensating for the loss arising from the damage caused to goods through fire, pilferage, theft and the hazards of sea, transportation and thus protects the traders from the fear of loss of goods. It charges insurance premium for the risk covered.

(e) Advertising: Advertising is any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor. When effectively advertising is better placed to meet the needs of its customers, consumers and stakeholders. First, it enables, other things being equal, successful execution, culminating in the profitable marketing of the advertised product. Too, it meets the socioeconomic needs of consumers, whose standard of living is enhanced,

economically empowered and presented with better choices. Advertising performs the function of bridging the information gap about the availability and uses of goods between traders and consumers. In the absence of advertising, goods produced by businessmen would not have been sold to a widely scattered market and customers would not be aware of the new products.

(f) Communication: This is another service area that aid business. It helps because up-to- date information is required. This information can be accessed through computers, satellite links and fax machines, mobiles.

Business Objectives:

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- “Objectives are the ends towards which activities of any enterprise or department or project within it, are aimed
- Objectives are the goals, aims or purposes that organizations wish to achieve over varying period of time.

Definition Of Business Objectives

- According to Louis Allen,
- "Objectives are goals established to guide the efforts of the company and each of its components."

According to Dalton E. McFarland,

- "Objectives are the goals, aims or purposes that organisation wish to achieve over varying period of time".

Importance / role / need of objectives

- Justify existence
- Facilitates planning
- Define relationships with environment
- Motives to achieve mission
- Supports appropriate decision making
- Standard of performance
- Ensures participation & Build confidence of employee
- Bring uniformity in operations
- Helps allocation of jobs.

Steps in setting Business objectives

1. Analyse Internal Environment:

It involves detail study of :

Physical Resources

Financial Resources

Human Resources

Management labour relations.

Analysis of the Internal Environment would reveal strengths and weaknesses of the organization.

Example:

If company have dedicated and committed employees then it reveal strength of the company.

If company have outdated machinery it indicates weakness of the company

2. Analyse External Environment:

It involves detail study of

Government Policies

Competitors strategies

Consumer tastes and preferences

Analysis of the external environment reveals opportunities and threats.

Example:

i) Change in customer preferences is an opportunity for organization.

ii) When competitors launch a new product it will termed as threat but organization can take it as opportunity and launch a new product.

3. Values and Beliefs of the organization: it influence setting of objectives.

Example: In some organisation top executives may value quality and innovation they may allocate more funds on research and development.

In other organization top management may believe in volume and not quantity they may not go for innovation.

4. Involvement of employees: There is need to involve employees in setting objectives. The company may adopt the technique of management by objectives (MBO). Under MBO approach, managers and employees jointly define and set the Goals.

5. Past Performance of the Firm: Awareness of the past objective and performance of the firm provides direction in setting objectives. Normally firm may not deviate too much in setting objectives as

compared to past objectives.

6. Setting objectives: The management set the objectives in all the functional areas such as production, marketing, finance and HRM

While setting objectives certain essentials need to be considered such as :

Objective should be : SMART

- **Specific and well defined**
- **Measurable**
- **Attainable**
- **Realistic**
- **Time Bound**

7. Implementation: after setting objectives, the management must plan and implement the targets.

The implementation of activities involves:

- Organizing resources
- Directing Subordinates
- Motivating Subordinates

8. Review: There must be periodic review of activities. To find out whether listed objectives are achieved or not. If deviation take place then corrective measures should be taken or objective will be reset.

Types of Business Objectives



Classification of Objectives of Business

Economic objectives	Social objectives	Human Objectives	National Objectives	Global objectives
<ul style="list-style-type: none"> ● Profit earning ● Creation of customers ● Regular innovation ● Best possible use of resources 	<ul style="list-style-type: none"> ● Production and supply of quality goods and services ● Adoption of fair trade practices ● Contribution to general welfare of the society 	<ul style="list-style-type: none"> ● Economic well being of the employees ● Social and psychological satisfaction of employees ● Development of human resources ● Economic well being of socially and economically backward people 	<ul style="list-style-type: none"> ● Creation of employment ● Promotion of social justice ● Production according to national priority ● Contribution to the revenue of the country ● Self-sufficiency and export promotion 	<ul style="list-style-type: none"> ● Raise general standard of living ● Reduce disparities among nations ● Make available globally competitive goods and services.

Organic Objectives • Survival • Growth • Goodwill and Image

Every business is established with the hope that it will exist, survive and thrive for a pretty long period. Therefore, every business has the following organic objectives:-

Survival- Every business has the objective of its own survival and existence. It is the basic objective of every business. It should be noted that if a business succeeds in surviving over a fairly long period of time, it would be in a position to achieve all its objectives, otherwise not.

Growth-Growth means expansion of business activities by introducing new products or expanding and diversifying existing product lines or by entering into new market. When a business succeeds in surviving, it would pursue the objective of growth. Businessman should Increase its investment, Increase its production capacity, Increase its market share, Increase its geographical area, Use innovative production and marketing strategies

Goodwill and Image- Every business makes every effort to enhance its goodwill and image. Businessman should deal with all the customers with honesty and integrity. To take care of the interests of all its stakeholder's properly. It should be noted that satisfied customers and other stakeholders are the strongest means of goodwill and image of a business.

Economic objectives of business:It refer to the objective of earning profit and also other objectives that are necessary to be pursued to achieve the profit objective, which include, creation of customers, regular innovations and best possible use of available resources.

Profit earning - Profit is the lifeblood of business, without which no business can

survive in a competitive market. In fact profit making is the primary objective for which a business unit is brought into existence. Profits must be earned to ensure the survival of business, its growth and expansion over time. Profits help businessmen not only to earn their living but also to expand their business activities by reinvesting a part of the profits.

In order to achieve this primary objective, certain other objectives are also necessary to be pursued by business, which are as follows:

Creation of customers A business unit cannot survive unless there are customers to buy the products and services. Again a businessman can earn profits only when he/she provides quality goods and services at a reasonable price. For this it needs to attract more customers for its existing as well as new products. This is achieved with the help of various marketing activities.

Regular innovations- Innovation means changes, which bring about improvement in products, process of production and distribution of goods. Business units, through innovation, are able to reduce cost by adopting better methods of production and also increase their sales by attracting more customers because of improved products.

Reduction in cost and increase in sales gives more profit to the businessman. Use of power-looms in place of handlooms, use of tractors in place of hand implements in farms etc. are all the results of innovation.

Best possible use of resources - to run any business you must have sufficient capital or funds. The amount of capital may be used to buy machinery, raw materials, employ men and have cash to meet day-to-day expenses. Thus, business activities require various resources like men, materials, money and machines. The availability of these resources is usually limited. Thus, every business should try to make the best possible use of these resources. This objective can be achieved by employing efficient workers, making full use of machines and minimizing wastage of raw materials.

Social objectives of business ::Business exists and operates in society. It draws all its resources from the society and sells its product/ services to the member of the society. Social objectives are those objectives of business, which are desired to be achieved for the benefit of the society. Since business operates in a society by utilizing its scarce resources, the society expects something in return for its welfare. No activity of the business should be aimed at giving any kind of trouble to the society. Social objectives of business include production and supply of quality goods and services, adoption of fair trade practices and contribution to the general welfare of society and provision of welfare amenities.

Production and supply of quality goods and services since the business utilizes the various resources of the society, the society expects to get quality goods and services from the business. The objective of business should be to produce better quality goods and supply them at the right time and at a right price. It is not desirable on the part of the businessman to supply inferior goods which cause injuries to the customers. They should charge the price according to the quality of the goods and services provided to the society. Again, the customers also expect timely supply of all their requirements. So it is important for every business to supply those goods and services on a regular

basis.

Adoption of fair trade practices - In every society, activities such as black-marketing and over charging are considered undesirable. Besides, misleading advertisements often give a false impression about the quality of products. Such advertisements deceive the customers and the businessmen use them for the sake of making large profits. This is an unfair trade practice. The business unit must not create artificial scarcity of essential goods or raise prices for the sake of earning more profits. All these activities earn a bad name and sometimes make the businessmen liable for penalty and even imprisonment under the law. Therefore, the objective of business should be to adopt fair trade practices for the welfare of the consumers as well as the society.

Contribution to the general welfare of the society- Business units should work for the general welfare and upliftment of the society. This is possible through running of schools and colleges for better education, opening of vocational training centres to train the people to earn their livelihood, establishing hospitals for medical facilities and providing recreational facilities for the general public like parks, sports complexes etc.

Human objectives:refer to the objectives aimed at the well-being as well as fulfilment of expectations of employees as also of people who are disabled, handicapped and deprived of proper education and training. The human objectives of business may thus include economic well- being of the employees, social and psychological satisfaction of employees and development of human resources.

Economic well- being of the employees - In business employees must be provided with fair remuneration and incentives for performance, benefits of provident fund, pension and other amenities like medical facilities, housing facilities etc. By this they feel more satisfied at work and contribute more for the business.

Social and psychological satisfaction of employees -It is the duty of business units to provide social and psychological satisfaction to their employees. This is possible by making the job interesting and challenging, putting the right person in the right job and reducing the monotony of work. Opportunities for promotion and advancement in career should also be provided to the employees. Further, grievances of employees should be given prompt attention and their suggestions should be considered seriously when decisions are made. If employees are happy and satisfied they can put their best efforts in work.

Development of human resources -Employees as human beings always want to grow. Their growth requires proper training as well as development. Business can prosper if the people employed can improve their skills and develop their abilities and competencies in course of time. Thus, it is important that business should arrange training and development programmes for its Employees.

Well- being of socially and economically backward people - Business units being inseparable parts of society should help backward classes and also people those are physically and mentally challenged. This can be done in many ways for instance, vocational training programme may be arranged to improve the earning capacity of backward people in the community. While recruiting it staff, business should give preference to physically and mentally challenged persons. Business units can also help

and encourage meritorious students by awarding scholarships for higher studies.

National Objectives:- The goal of the country may be to provide employment opportunity to its citizen, earn revenue for its exchange, become self-sufficient in production of goods and services, promote social justice, etc. Business activities should be conducted keeping these goals of the country in mind, which may be called national objectives of business. The following are the national objectives of business.

Creation of employment -One of the important national objectives of business is to create opportunities for gainful employment of people. This can be achieved by establishing new business units, expanding markets, widening distribution channels, etc.

Promotion of social justice - As a responsible citizen, a businessman is expected to provide equal opportunities to all persons with whom he/she deals. She/he is also expected to provide equal opportunities to all the employees to work and progress. Towards this objective special attention must be paid to weaker and backward sections of the society. National Objectives

Production according to national priority - Business units should produce and supply goods in accordance with the priorities laid down in the plans and policies of the Government. One of the national objectives of business in our country should be to increase the production and supply of essential goods at reasonable prices.

Contribute to the revenue of the country - The business owners should pay their taxes and dues honestly and regularly. This will increase the revenue of the government, which can be used for the development of the nation. National Objectives

Self-sufficiency and Export Promotion - To help the country to become self-reliant, business units have the added responsibility of restricting import of goods. Besides, every business units should aim at increasing exports and adding to the foreign exchange reserves of the country.

Global Objectives Earlier India had a very restricted business relationship with other nations. There was a very rigid policy for import and export of goods and services. But, now-a-days due to liberal economic and export–import policy, restrictions on foreign investments have been largely abolished and duties on imported goods have been substantially reduced. This change has brought about increased competition in the market today because of globalization the entire world has become a big market. Goods produced in one country are readily available in other countries. So, to face the competition in the global market every business has certain objectives in mind, which may be called the global objectives.

Raise general standard of living - Growth of business activities across national borders makes available quality goods at reasonable prices all over the world. The people of one country get to use similar types of goods that people in other countries are using. This improves the standard of living of people. Global Objectives

Reduce disparities among nations - Business should help to reduce disparities among the rich and poor nations of the world by expanding its operation. By way of capital investment in developing as well as underdeveloped countries it can foster their

industrial and economic growth.

Make available globally competitive goods and services

-Business should produce goods and services which are globally competitive and have huge demand in foreign markets. This will improve the image of the exporting country and also earn more foreign exchange for the country.

Reconciliation of the economic and social Objectives –

Balancing of economic and social objectives together. Objectives are needed in every area where performance and results directly affect the survival and prosperity of a business. The right choice of objectives is critical for the success of the business.

Economic Objectives of Business-We learned in the previous topic that business is an economic activity. Hence, its purpose is to show economic results. Let's understand the economic objectives of the business. They are as follows:

1] Profit Earning-Business is a set of activities undertaken with the prospect of sale for the purpose of earning a profit. Profit is the extra income over the expenses. The main objective of any business is to earn a profit. Just as a plant cannot survive without water, similarly a business cannot sustain without profit.

2] Market Share / Creation of Customers-In the long run, the survival of the business completely depends upon the market share captured by the business. The creation of good and satisfaction of the needs of the customer is a crucial purpose of the business. **So to generate profit and demand, the business must supply premium quality and give value for money products.**

3] Innovation & Utilization of Resources-Innovation normally means to change processes or creating more effective processes, products and ideas. Nowadays, business is ever-changing and dynamic. To keep up with the growing competition a businessman has to introduce efficient design, latest trends, upgraded machinery, new techniques, etc.

4] Increasing Productivity-Productivity is a scale to measure the efficiency of the business activity. It is usually the last objective but just as important because productivity is measured by the output given by the activities. It is the end result of any business activity. Each business must go for more prominent productivity – to guarantee its survival and development. This goal can be accomplished by decreasing wastages and making proficient utilization of machines and supplies, HR, cash and so forth.

Social Objectives of Business-According to Dayton Hudson “The business of business is serving society, not just making money.” Business is one of the pillars on which society stands. Therefore, it is a part of society. In fact, it cannot thrive without the resources from society. The business earns its income from the sale of products and services to society. It is mandatory on the part of the business to take care of the social factors. The necessary social objectives of a business are as follows:

1] Providing Goods & Services at Reasonable Prices-Business exists in the first place to satisfy the needs of society. It's the first and major social objective of the business. Products and services ought to be of better quality and these ought to be provided at sensible costs. It is additionally the social commitment of business to keep away from misbehaviors like hoarding, Black promoting and manipulative advertising.

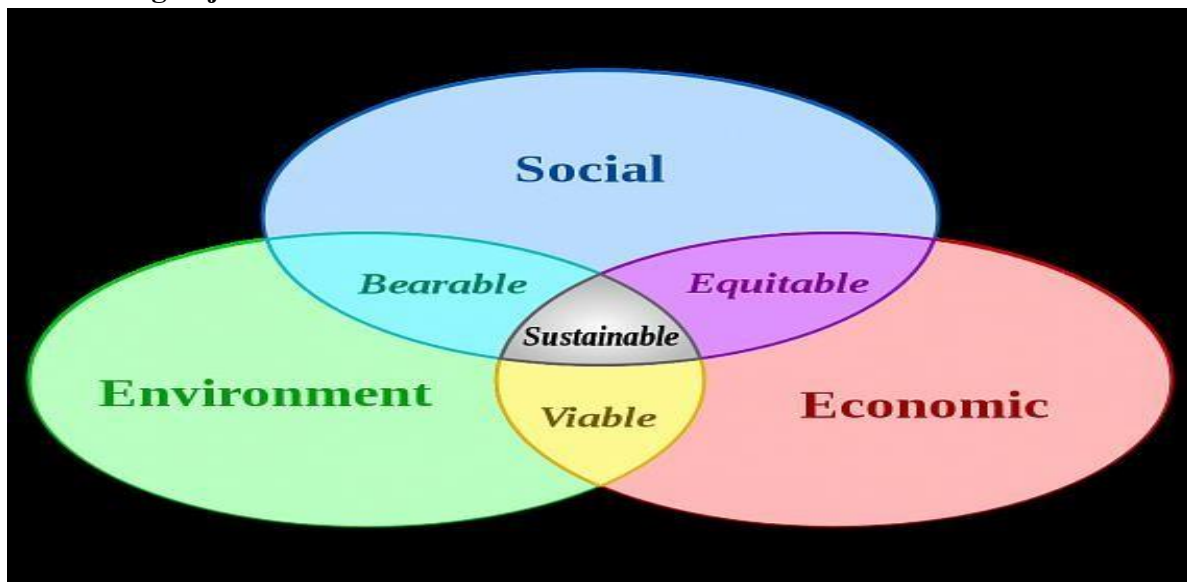
2] Employment Generation-One of the major problems of today's generation facing is unemployment. The business generates employment. Therefore, it is the social objective of a business to give chances to beneficial employment to individuals of society. In a nation like India, unemployment has turned into a critical issue.

3] Fair Remuneration to Employees- The **business** does not run on its own but the people are responsible for the success and failure of the business. The people on the inside of the business are

more valuable i.e. employees. They are an asset of the business and make a ground-breaking contribution to the business. They must be given reasonable pay for their work.

4] Community Service- Business must give back something to society. As a result, the Library, dispensary, educational foundations and so on which a business can make and help in the advancement of society are created.

Reconciling objectives:



Business Environment:

- Environment means surroundings, external objects, influences under which someone exists.

According to Keith Davis

- The environment of organisation is “the aggregate of all conditions, events and influences that surround and affect it”
- Understanding of environment is very crucial for the success of the business organisations

Characteristics of environment

1.Environment is Complex: Relatively easier to understand its parts but difficult to grasp in totality as the number of events, factors, influences arises from different sources. The factors that affect the business are not limited to one aspect, but various factors such as political, legal, social, and economic factors

2.Environment is dynamic: Constantly changing in nature. The business environment is continuously changing due to various internal and external factors. The change could be due to technological advancements, changes in consumer behavior, government policies, or economic conditions.

3.Environment is multi-faceted: Shape and character of an environment assumes depends on the perception of the observer. The term implies “having many different parts or sides”.

Due to complexity, uncertainty and dynamism of a business environment, there is a continuous change in its shape, character and scope.

The perception of the observer is very important as a new change or development may bring fresh opportunities to one but may be a threat to another.

4.Environment has a far-reaching impact: The growth and profitability of an organisation depends critically on the environment in which it exists. The term implies “having important and widely applicable effects or implications”.

- Each business organization operates in its unique environment and it influences and being influenced by such environment.
- The business environment has a very great influence not only on the growth but also on the survival of the organization. If you do not change as per the changed scenario, the business may come to an end

5.Specific and general forces: Business environment includes specific forces such as investors, customers, competitors and suppliers. Non-human or general forces are Social, Legal, Technological, Political, etc. which affect the Business indirectly.

6.Inter-relation: Environmental forces are interrelated. Different forces of business environment are interrelated to each other.

One component of the business environment affects the functioning of other components.

Example: The increased life expectancy of people and awareness of health consciousness has increased the demand for many health products like diet coke, olive oil, and so many health products

7.Diverse: The business environment is diverse as it comprises various internal and external factors that affect the business. Internal factors such as employees, management, and organizational culture influence the business, while external factors such as competitors, customers, and suppliers also have a significant impact.

- **Uncertainty:** Business environment is largely uncertain because it is very difficult to forecast the future environment.
- When the environment is volatile, i.e. changes very fast, uncertainty increases.

8.Relativity

Business environment is a relative concept. It differs from country to country and even region to region.

Capitalist economies like those of USA and UK have a different kind of environment than communist economies. The nature of economic system in a country affects the environment of business.

The technology in one country differs from that in another country.

The importance/significance of the business environment

1. Enables to Identify Business Opportunities

All changes are not negative. If understood and evaluated them, they can be the reason for the success of a business. It is very necessary to identify a change and use it as a tool to solve the problems of the business or populous. For example, Mr. Phanindra Sama was troubled by the ticket booking condition in India. He used to travel a long distance to his travel agent to book his ticket but even after traveling this distance he was not sure if his seat was confirmed. He saw the opportunity to establish an app in the face of the problem and co-founded the online ticket booking app called 'redBus'.

2. Helps in Tapping Useful Resources:

Business enterprises depend upon the environment as a source of input or resources (such as raw materials, water, labour, machines, finance, etc.) and as outlets for their output (goods and services). The business managers must design the policies that allow the enterprise to get the resources so that they can convert them into outputs that the consumers desire. Business arranges for payments of taxes to the government, providing reasonable and fair returns to their investors, fulfilling corporate social responsibilities, and so on. All these can be done very effectively by understanding what the environment has to offer and what it needs.

For example, with the rise in demand for LED, the company started arranging raw materials for LED instead of a CRT monitor.

3. Coping with Changes

The business must be aware of the on-going changes in the business environment, whether it be changes in customer requirements, emerging trends, new government policies, technological changes. If the business is aware of these regular changes then it can bring about a response to deal with those changes.

For example, when the Android OS market was blooming and the customers were preferring Android devices for its easy interface and apps, Nokia failed to cope with the change by not implementing Android OS on Nokia devices. They failed to adapt and lost tremendous market value.

4. Assistance in Planning

This is another aspect of the importance of the business environment. Planning purely means *what is to be done in the future*. When the Business Environment presents a problem or an opportunity, it is up to the business to decide what plan would it have to come up with in order to address the future and solve the problem or utilise the opportunity. After analysing the changes presented, the business can incorporate plans to counteract the changes for a secure future.

5. Helps in Improving Performance

All types of business environments are facing an increasingly dynamic business environment where changes are taking place at a fast pace. Rapid changes in technology, instant global competitors, more demanding customers, low brand loyalty, division and subdivision of markets are just a few of the images that describe the present business environment, and the future of the business environment is closely associated with what is happening in the environment, so the business environment that continuously monitors the environment, and adopts suitable ways of action based on their environment learning experience will be the one to succeed in the market for a longer period.

6.Helps the firm to identify threats and early warning signals:

Besides opportunities, a business environment is also a source of varied threats of crisis. Threats refer to that trend or changes in the external environment, which hinders the performance of the business enterprise. A proper environmental understanding and awareness can help business managers to recognize various threats on time, which also serves as a warning signal.

For example, especially in India, they come up with many innovative products and substitutes, so the existing business enterprise must consider this as a warning signal and must handle the threat proactively well ahead of the launch of the MNCs products. They must adopt various methods, like improving the quality of the product identifying areas where the cost of production can be due, and engaging in aggressive advertising, publicity and sales promotion

7.Helps in better reputation or building corporate image:

An understanding of the business environment helps business managers to make realistic plans and policies, and also ensure their effective implementation. Consequently, the business environment will

surely achieve its goals smoothly and consistently, and this fact also generates a feeling amongst the people that the business environment is sensitive to its environment, and as a result, the reputation gets enhanced.

Relationship between business and environment?

Environment is closely related with **business**. There is a constant 'give and take' **relationship between environment and business**. The **business** receives inputs, information and technology from the **environment** and gives it back in the form of outputs (goods and services). Two forces help **shape the relationship between business and society** are our environment and technology. The state of the earth's resources and changing attitudes about the natural environment powerfully impact the **business– society relationship**.”

Since a business does not operate in a vacuum, external factors affect its actions. These factors may be related to micro as well as macro environment. An organization gets a range of opportunities, limitations, pressures and threats from the external environment. The style, structure, scope and functioning of the enterprise is affected by this environment. There is a close relationship between the organization and the environment. The nature of the relationship depends on the various parameters of an organization like its size, management, nature of ownership, age and nature of business, etc. In the significant areas of interaction, the focus of the relationship is on exchange. These areas of interaction are outlined below:

1.Exchange of information::

- The organization scans the external environment.
- Important information is generated after scanning, and it helps the organization to get over the problem of uncertainty and competitiveness of the external environment.
- Such information is gathered on economic activity and market conditions, social and demographic factors, technological developments, activities of rival organizations, etc.
- The organization uses this information for planning, decision-making, and control purposes.
- This information may be current or projected, but both are important for the organization.
- This information is also transmitted to several external agencies, either voluntarily, inadvertently or legally.

2.Exchange of resources

- Apart from information, there is an exchange of information also.
- To produce goods and services, a firm needs inputs from its environment: finance, materials, workforce, equipment, etc. The acquisition of these inputs requires interaction between organization and market.

The resources are typically categorized as **5 M's**:

1.
 1. Men
 2. Money

3. Method
4. Machine
5. Material

- The interaction is also required to dispose of its output to a wide range of clientele such as customers, employees, shareholders, creditors, suppliers, local community, the general public, etc.

3.Exchange of influence and power

There are two aspects in this regard:

(a) Organization is conditioned and constrained:

The external environment can impose its will on the organization as it holds considerable power over a firm due to the following reasons:

- The business environment is inclusive.
- It has command over resources, information and other inputs.
- It offers opportunities for growth on the one hand and constraints on the other.

(b) Organization may be well-positioned:

Sometimes organization enjoys considerable power and influence over some of the elements of the external environment:

- Organization may have command over information and resources.
- Such organizations have more autonomy and freedom of action.
- They can dictate terms of its environment and mould them to its will

An Organization's Response to its Environment

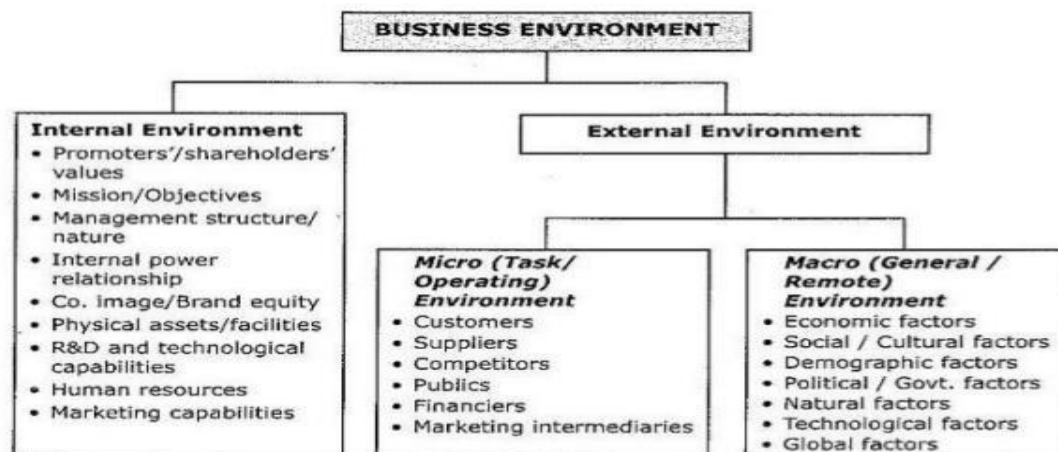
In order for an organization to respond well to its environment, it must be able to monitor and make sense of its environment and have an internal capacity to develop effective responses.

An organization's response to its environment can be of the following three types:

1. *Administrative*: These are either proactive or reactive responses to specific environments
2. leading to forming or redefining the organization's purpose and key tasks.
2. *Competitive*: A change in the competitive environment can force an organization to respond with actions that can help it gain a competitive advantage over its rivals.
3. *Collective*: Many organizations cope with environmental dependence problems through strategic collective responses including methods like co-opting, bargaining, alliances, etc.

In the study of the relationship between an organization and its environment, we find that the three primary interactions between the two are the exchange of information, resources and influence, and power.

Components of Business Environment



Components of Business Environment

The components of business organizations are **Internal and External**. Further, the external components may relate to Micro or Macro environment.

I. Internal Environment

- Internal environment is a **component of the business environment**, which is composed of various elements **present inside the organization**, that can affect or can be affected with, the choices, activities and decisions of the organization.
- It **encompasses** the climate, culture, machines/equipment, work and work processes, members, management and management practices.
- In other words, the internal environment refers to the culture, members, events and factors **within an organization** that has the ability to influence the decisions of the organization, especially the behaviour of its human resource.
- **The factors which are under the control of the organization**, but can influence business strategy and other decisions are termed as internal factors. It includes:

(a) Value System: Value system consists of all those components that are a part of regulatory frameworks, such as culture, climate, work processes, management practices and norms of the organization.

(b) Vision, Mission and Objectives: The company's vision describes its future position, mission defines the company's business and the reason for its existence and objectives implies the ultimate aim of the company and the ways to reach those ends.

(c) Organizational Structure: The structure of the organization determines the way in which activities are directed in the organization so as to reach the ultimate goal. It can be matrix structure, functional structure, divisional structure, bureaucratic structure, etc.

(d) Corporate Culture: Corporate culture or otherwise called an organizational culture refers to the values, beliefs and behaviour of the organization that ascertains the way in which employees and management communicate and manage the external affairs.

(e) Human Resources: Human resource is the most valuable asset of the organization, as the success or failure of an organization highly depends on the human resources of the organization.

(f) Physical Resources and Technological Capabilities: Physical resources refers to the tangible assets of the organization that play an important role in ascertaining the competitive capability of the company. Further, technological capabilities imply the technical know-how of the organization.

II.External Environment

- The factors that happen **outside the business** are known as external factors or influences.
- The external factors or the environment not only affect the business's internal functions but also **create pressure** on the organization to revisit and redefine, if necessary, its objectives and strategies.
- There are **two major types** of external environment:
 1.
 1. Micro Environment
 2. Macro Environment
- **1. Micro Environment:**

Micro-Environment is the immediate environment which has a direct impact on the business operations and their success. It is also known as the Task Environment.

Suppliers

The suppliers are an important part of an organization's overall customer value delivery network. They are the ones who provide inputs to business like raw materials, parts, cutting tools, equipments etc. The quality and reliability of vendors are very essential for smooth functioning of business of any organization. Marketing managers must have a control on the suppliers availability and costs. Any shortage or delays of supplies, in terms of natural disasters or other events can cause damage to sales in short run and lead to customer dissatisfaction in the long run.

Marketing Intermediaries

The marketing intermediaries are also an important component for company's overall value delivery network. They include those individuals or firms who help the company in promotion, sales and distribution of its goods to the final buyers. Examples includes *middlemen* (agents or merchants) who help the company find customers, *physical distribution firms* such as warehouses or transportation firms that help the company in stocking and moving goods from their origin to the destination and *marketing service agencies* such as market research and advertising firms.

Competitors

Competitors are rivals who compete with the organization in market and resources as well. According to the marketing concept, a company needs to provide greater customer value and satisfaction than its competitors, in order to be successful. The marketers must not only try to simply adapt to the needs and

demands of target customers, but also try to attain strategic advantage against the competitors by positioning their products strongly in the market.

General Public

The public refers to the group of people who have an actual or potential interest in company's product or who can have an impact on the organizations ability to achieve its objective. There are seven types of publics identified in a company's marketing environment which includes financial publics, media publics, government publics, citizen-action publics, internal publics, local publics and general public.

Customers

The most important actors in the company's microenvironment are its customers. The whole of value delivery network aims to engage the target customers and create strong relationships with them. There are five types of customer markets that companies might try to target. These include consumer markets, business markets, government markets, reseller markets, and the international markets.

2. Macro Environment

- The macro environment is the larger, uncontrollable environment consisting of societal forces that affect all other environments. They offer tremendous opportunities for any business and also present threats that can harm a business in a major way.

Demographic environment

Demography can be defined as the study of human population in context of size, density, age, location, gender, race, occupation and other statistics. The marketers have special interest in the demographic environment because it consists of people and people are the driving force for development of markets. The large and diverse demographics offer both opportunities as well as challenges for businesses.

Economic environment

The economic environment consists of factors that can affect consumer purchasing power as well as the spending patterns. As an example, it is not advisable for a company to start exporting its goods to a country before having examined the citizens spending patterns. Important economic criteria includes GDP, GNI, Import duty rate, unemployment, inflation, spending patterns as well as the disposable personal income.

Natural environment

It refers to the natural resources or physical environment that are required as inputs by marketers or which is affected by the marketing activities. The ecological conditions have become a crucial factor to consider as the environmental concerns have grown strongly in the recent years. Example, air and water pollution, floods, droughts, etc.

Technological environment

Technology has a crucial influence in the macro environment. An organization needs to perform a thorough research on the spread and use of technology, before investing in any of marketing activities. The company needs to have an understanding of the technology penetration as well as user interface technology in the region and make plans accordingly for their communication and campaigns.

Political environment

The developments in the political environment strongly affect the marketing decisions. This involves laws, government agencies, as well as the pressure groups that can influence or give constraints to various individuals or organizations in a given society.

Socio-Cultural environment

The cultural environment links to factors which affects the basic values, preference, perceptions and behavior of the society. Organizations needs to understand the cultural beliefs and practices prevalent in society for marketing decision making. Failure of companies in understanding foreign cultures can lead to many cultural blunders. For example, a symbol having a positive meaning in one culture can have a negative meaning in some other culture.

Regulatory Environment

It includes the laws, rules, regulations, and acts passed by the government. A company has to operate by abiding by the rules and regulations of laws like the Consumer Protection Act 1986, Companies Act 1956, etc. A proper understanding of these laws assists in the smooth operations of a company.

Example: A cigarette-selling company compulsorily has to put the slogan “smoking is injurious to health” on every packaging.

International /Global Environment

- International managers face intense and constant challenges that require training and understanding of the foreign environment.
- Managing a business in a foreign country requires managers to deal with a large variety of cultural and environmental differences.

As a result, international managers must continually monitor the political, legal, sociocultural, economic, and technological environments

Factors influencing operations in the global environment

- Globalisation, its process, content and direction
- Global economic forces, organisations, blocs & forums
- Global financial systems, financing organisations & accounting standards
- Geopolitical situation, equations, strategic alliances and interest of nations
- Global demographic patterns & shifts

Environmental Scanning/Analysis

- Environmental scanning is a constant and careful analysis of the internal and external environment of an organization
- It is done in order to detect opportunities, threats, trends, important lessons, and weaknesses which can impact the current and future strategies of the organization.
- Identification of these variables can either be used to build strategies either to expand the business or to minimize their impacts on the growth of the business.

Environmental scanning can be defined as the **process by which organizations monitor their relevant environment** to identify opportunities and threats affecting their business for the purpose of taking strategic decisions.

In other words, it is the **process of gathering information** regarding company's environment, analysing it and forecasting the impact of all predictable environmental changes. It helps the managers to decide the future path of the organization.

Having knowledge about the issues in the business and market changes, management can take important decision for the future of the organization

Importance of environmental scanning:

- By performing environmental analysis, company can learn about the strengths, opportunities, opportunities available, and threats lurking around the industry. Having knowledge about all these things company can take a decision regarding the business and can reform the business strategies.
- Constant environment scanning helps the organization to learn about the opportunities and threats occurring in the industry and on the basis of that information future strategies can be planned and implemented. Hence, it helps the organizations to stay strong in the game.
- The environmental analysis helps to determine whether the resources such as human resource, capital resource, etc. are being used properly or not. It helps to curb down the wastage of these important resources.
- Environmental scanning helps to learn about the business strategies of competitors. Company can take ideas from the strategies and can also form the strategies accordingly so that company can give constant competition to them.
- The data collected from environmental scanning plays an important role in long-term business planning.
- Environmental scanning helps to stay connected with the consumers. company can learn about the changing expectations of its consumers and provide them services accordingly

A **PESTEL** analysis is a framework or tool used by marketers to analyze and monitor the macro-environmental (external marketing environment) factors that have an impact on an organization, company, or industry. It examines the Political, Economic, Social, Technological, Environmental, and Legal factors in the external environment. A PESTEL analysis is used to identify threats and weaknesses which are used in a SWOT analysis.

Political factors include government policies, leadership, and change; foreign trade policies; internal political issues and trends; tax policy; regulation and de-regulation trends. These factors determine the extent to which a government may influence the economy or a certain industry. For example, a government may impose a new tax or duty due to which entire revenue generating structures of organizations might change. Political factors include tax policies, Fiscal policy, trade tariffs, etc. that a government may levy around the fiscal year and it may affect the business environment (economic environment) to a great extent.

Economic factors include current and projected economic growth; inflation and interest rates; job growth and unemployment; labor costs; impact of globalization; disposable income of consumers and businesses; likely changes in the economic environment. These factors are determinants of an economy's performance that directly impacts a company and have resonating long term effects. For example, a rise in the inflation rate of any economy would affect the way companies price their products and services. Adding to that, it would affect the purchasing power of a consumer and change demand/supply models for that economy. Economic factors include inflation rate, interest rates, foreign exchange rates, economic growth patterns, etc. It also accounts for the FDI (foreign direct investment) depending on certain specific industries who're undergoing this analysis

Social factors include demographics (age, gender, race, family size); consumer attitudes, opinions, and buying patterns; population growth rate and employment patterns; socio-cultural changes; ethnic and religious trends; living standards. These factors scrutinize the social environment of the market, and gauge determinants like cultural trends, demographics, population analytics, etc. An example of this can be buying trends for Western countries like the US where there is high demand during the Holiday season.

Technological factors affect marketing in (1) new ways of producing goods and services; (2) new ways of distributing goods and services; (3) new ways of communicating with target markets. These factors pertain to innovations in technology that may affect the operations of the industry and the market favorably or unfavorably. This refers to automation, research and development, and the amount of technological awareness that a market possesses.

Environmental factors are important due to the increasing scarcity of raw materials; pollution targets; doing business as an ethical and sustainable company; carbon footprint targets. Environmental factors have come to the forefront only relatively recently. They have become important due to the increasing scarcity of raw materials, pollution targets and carbon footprint targets set by governments. These factors include ecological and environmental aspects such as weather, climate, environmental offsets and climate change which may especially affect industries such as tourism, farming, agriculture and insurance. Furthermore, growing awareness of the potential impacts of climate change is affecting how companies operate and the products they offer. This has led to many companies getting more and more involved in practices such as corporate social responsibility (CSR) and sustainability.

Legal factors include health and safety; equal opportunities; advertising standards; consumer rights and laws; product labeling and product safety. These factors have both external and internal sides. There are certain laws that affect the business environment in a certain country while there are certain policies that companies maintain for themselves. Legal analysis takes into account both of these angles and then

charts out the strategies in light of these legislations. For example, consumer laws, safety standards, labor laws, etc.

Uses of PESTLE Analysis

1. Strategic business planning

A PESTLE analysis report is a useful document to have by your side when starting a business planning process. It provides the senior management team with loads of contextual information about the company like the direction in which the business is heading, brand positioning, growth targets, and the areas of concern that may lead to a decline in growth and productivity

2. Workforce Planning

-
Workforce planning is a business process that aligns business and people strategies. A PESTLE analysis helps businesses to identify disruptive changes to business models that may have a profound impact on the future employment landscape. Organizations are facing huge changes in their workforce from increased skills gaps, the creation of job roles that did not exist 10 years ago like the IT department, and job reductions or displacement.

3. Marketing Planning

As PESTLE analysis brings a lot of information on external factors, it also brings crucial market insights. So, it can help prioritize business activities to accomplish specific marketing objectives within a set timeframe.

4. Product development

As mentioned above, a PESTLE analysis also has crucial market insights that tell about the response from customers about a product or service. This helps businesses to decide on whether to enter or leave a route, modify an existing product, and when and what to launch as a new product.

5. Organizational Change

A PESTLE analysis is a powerful tool for understanding the context for change, and focusing on the areas to make that change successful. In this situation, PESTLE analysis works best with a SWOT analysis. This helps an organization to identify the potential opportunities and threats around labor changes, for example, skill shortage and workforce capabilities

Advantages of PESTEL ANALYSIS

- It is a simple framework- easy to understand and conduct
- It facilitates a better and broader understanding of the business environment.
- It encourages organizations to develop external and strategic thinking
- The most talked advantage- it enables an organization to anticipate future business threats and allows it to minimize or nullify the impact

- It also allows organizations to spot an opportunity and to capitalize on them

Disadvantages of PESTEL ANALYSIS

- Some PESTLE analysis users oversimplify the amount of data used for decisions – it's easy to use insufficient data.
- It's easy to get lost in the enormous amount of data. So, there always remains a risk of capturing too much data and undertaking too much [data analytics](#) that may lead to 'paralysis by analysis'
- As a PESTLE analysis works on assumptions, there remains a risk of being wrong
- Once in a while an attitude doesn't work with PESTLE analysis. So, it must be a regular practice.
- The pace of change makes it difficult to anticipate the developments and this may affect the organization in future.

SWOT ANALYSIS

S STRENGTHS	W WEAKNESSES	O OPPORTUNITIES	T THREATS
<ul style="list-style-type: none"> • Things your company does well • Qualities that separate you from your competitors • Internal resources such as skilled, knowledgeable staff • Tangible assets such as intellectual property, capital, proprietary technologies etc. 	<ul style="list-style-type: none"> • Things your company lacks • Things your competitors do better than you • Resource limitations • Unclear unique selling proposition 	<ul style="list-style-type: none"> • Underserved markets for specific products • Few competitors in your area • Emerging need for your products or services • Press/media coverage of your company 	<ul style="list-style-type: none"> • Emerging competitors • Changing regulatory environment • Negative press/ media coverage • Changing customer attitudes toward your company <p style="text-align: right;">WordStream</p>

- **Importance of SWOT**

- Capitalise on strength
- Win over weaknesses
- Benefit from opportunities
- Collect visualisation of threats
- Improvement of business
- Future Orientation

SWOT Analysis

- Swot analysis is “a simple but powerful tool for sizing up a company’s resource capabilities and deficiencies, its market opportunities and the external threats to its future well being”-Thompson Strickland
- **SWOT (strengths, weaknesses, opportunities, and threats) analysis is a framework used to evaluate a company’s competitive position and to develop strategic planning.**
- SWOT analysis assesses **internal and external factors**, as well as current and future potential.
- A SWOT analysis is **designed to facilitate** a realistic, fact-based, data-driven look at the strengths and weaknesses of an organization, initiatives, or within its industry.
- The organization needs to keep the analysis accurate by avoiding pre-conceived beliefs or grey areas and instead focusing on real-life contexts.
- Companies should use it as a guide and not necessarily as a prescription
- **Strengths:** Are Internal to the business-they are controllable. Strengths are something a company is good at. It enables the company to have strategic advantage. A **skill, resource, or other advantage** that a firm has relative to its competitors that is important to serving the needs of customers in its marketplace
- **Weaknesses:** Are competitive deficiency. Is internal to business and controllable premises. A limitation or **lack of skills, resources**, or capabilities that impedes a firm’s effective performance
- **Opportunities:** Are external to the business. Uncontrollable premises. Opportunities are any **feature of the external environment which creates conditions that a business can exploit to its advantage**. If the business is successful in exploiting opportunities, then it will be better placed to achieve its objectives.
- **Threats:** Are external to the business. Uncontrollable premises. Unfavourable condition to the business. Threats are any aspect of the **external environment which cause problems** and which may prevent achievement of objectives. Almost by definition, what presents a threat to one business offers an opportunity to other businesses.

Advantages of SWOT Analysis

Simple and Straightforward Process

SWOT analysis does not require technical expertise or formal training. Instead, anybody with an understanding of the organization in a situation and the sector in which it operates can conduct it. The procedure includes facilitating a brainstorming session where the four SWOT analysis elements are explored. As a consequence, the opinions and judgments of the individual participants are combined to form group opinions that the whole group supports. In this manner, each person's expertise contributes to the accumulated knowledge.

Offer Multi-Level Analysis

By examining each of the four components of the SWOT analysis-strengths, weaknesses, opportunities, and threats- you may learn vital information about the probability of achieving your goal. A business person may be warned that a planned expenditure in a new manufacturing work area should be more properly examined if certain risks to the corporate environment, such as new government laws regulating a product design or the launch of competitive products, are discovered.

Additionally, being aware of a firm vulnerability, like a lack of competent staff, may indicate the need to think about outsourcing specific tasks.

Encourages Strategic Planning

A key tool for strategic planning is the SWOT analysis. It is a systematic process for identifying the advantages, disadvantages, opportunities, and risks that might have an impact on a project, company, or organization. Organizations may create strategies to optimize their strengths and reduce their shortcomings by recognizing and comprehending these elements. This can increase their chances of success and help them stay competitive.

The external and internal elements that might affect a business's development and success can be found and evaluated using the SWOT analysis. This could enable better planning by assisting businesses in choosing where to concentrate their efforts and resources in order to produce the greatest value. It may also be used to decide how to distribute resources best or create a long-term strategy.

Flexible or Versatile

SWOT analysis is a versatile tool that may be applied in various contexts. It may be applied to discover and assess an organization's products, projects, or even an individual's strengths, shortcomings, opportunities, and threats. It may be applied to analyze the state of a firm or the viability of a new product or business endeavour. SWOT analysis is also applicable to a range of situations, including product development, advertising campaigns, and organizational decision-making.

SWOT analysis may be implemented in a variety of ways. It may be applied informally to brainstorm and produce ideas, or it can be applied formally to evaluate a specific problem. It may be used to swiftly evaluate a variety of elements, including market trends, competition risks, and customer wants. It may also be used to evaluate alternatives and choose the best one.

Last but not least, SWOT analysis may be applied at any level of development or operation. It may be applied early on in a project to discover prospective opportunities and dangers or later on to assess potential solutions and their chances of being successful. SWOT Analysis is an effective technique that may be employed to evaluate a number of circumstances and assist companies in making wise decisions as a result.

Shows Possible Opportunities and Threats

SWOT analysis may be used by businesses to pinpoint the main opportunities and dangers present in any particular market. As a result of this tool's accessible findings, every small community may have its data enlarged to the regional, national, or global levels. This enables the company to recognize and then take full advantage of its strengths and shortcomings.

Disadvantages of SWOT Analysis

Unpredictable

The "unpredictability" of the SWOT analysis is a significant drawback since it is hard to foresee prospective threats, opportunities, and weaknesses that may emerge in the future. SWOT analysis frequently only considers the existing environment and is unable to recognize any outside influences that could have an impact on the organization's future. This may result in a lack of readiness and the inability to handle any possible problems that could emerge effectively.

As a result, businesses could find it difficult to predict trends or other prospective developments that could have a big effect on their business. Finally, since the competitive environment is not taken into account in a SWOT analysis, businesses may not be able to foresee their rivals' moves or take proactive measures to obtain a competitive edge.

Time-Consuming Process

A SWOT analysis takes a lot of time to complete. To accurately pinpoint a company's strengths, flaws, opportunities, and dangers, extensive study and analysis are needed. Evaluating the internal and external elements that have an impact on a business's success might take some time. This includes investigating the market's competitive environment, assessing the company's strengths and weaknesses, and reviewing customer and financial data as well as other market information.

Finding the ideal balance between getting enough information to enable the team to make choices and gathering too much information that would overwhelm them and prevent them from doing so may also be challenging. Analyzing and understanding the data needed to conduct a SWOT analysis can be time-consuming.

High Cost

A significant drawback of SWOT analysis is its high cost. This is true because it takes a lot of resources-including time, money, and personnel-to do a successful SWOT analysis. Access to outside consultants or experts can also be necessary.

Even with these tools, it might be challenging to complete a thorough SWOT analysis that considers all pertinent elements. For small enterprises or groups with tight resources, the expense of the analysis may be unaffordable. Furthermore, the analysis' findings could not be precise or thorough enough to allow for decision-making.

Subjective Analysis

Being a subjective analysis means that SWOT analysis is heavily reliant on the opinion of the individual or team conducting the analysis. This can lead to bias, as the opinion of the individual or team could be influenced by their personal beliefs or experiences rather than by the facts. This can sometimes lead to inaccurate or incomplete results and can limit the effectiveness of the analysis.

Additionally, subjective analysis can lead to different interpretations of the same data, which can lead to confusion and misunderstandings. Finally, subjective analysis can be difficult to replicate, as the same results may not be achieved if the analysis is conducted by a different individual or a team.

Absence of Recommendations

One of the primary drawbacks of SWOT analysis is the absence of recommendations that may be put into practice. This implies that even if the SWOT analysis might spot prospective opportunities and threats, it does not offer comprehensive advice on how to seize these chances or reduce the risks brought on by threats.

SWOT analysis is largely a diagnostic tool, not a therapeutic one. It doesn't offer any detailed advice on how to take advantage of the opportunities and eliminate risks that may have been recognized. The identified strengths, weaknesses, opportunities, and dangers are not given any method of prioritization. Organizations may therefore find themselves with a huge number of feasible tactics without any idea of which to concentrate on. Moving from analysis to action may become challenging as a result.

VUCA World and its impact on business

VUCA is a concept that originated with students at the U.S. Army War College to describe the volatility, uncertainty, complexity, and ambiguity of the world after the Cold War. And now, the concept is gaining new relevance to characterize the current environment and the leadership required to navigate it successfully.

Very trendy, very real, **VUCA is short for Volatile, Uncertain, Complex, and Ambiguous**, usually applied to the context we live in.

VUCA stands for volatility, uncertainty, complexity, and ambiguity, a set of characteristics that, when combined, reflect the nature of some challenging settings and situations.

- The aspect of being prone to frequent, fast, and significant change is known as **volatility**.
- **Uncertainty** is when the occurrences and consequences of a situation are unpredictably unexpected.

- **Complexity** encompasses a wide range of challenges and causes, some of which are closely linked.

Ambiguity is depicted by the absence of clarity and complications while inferring the precise nature of any circumstance

These 5 Signs shows that VUCA World is Impacting Various Business and Industries:

1. Hyper-competition

The business world is ripe for young entrepreneurs as about 100 million new enterprises are launched each year, and tough competitors are developing faster than ever before. The business world has expanded to a battlefield where only the strongest can withstand.

2. New Technology

Latest technological advancements, ranging from block chain to artificial intelligence, are altering markets and client preferences daily. Keeping up with such trends is essential for long-term survival but predicting what is genuinely worth investing in is difficult.

3. Changing Customers

Consumer loyalty is far from guaranteed in an era of extraordinary choice. Customers are harder to gain, engage with, and maintain because they expect better value and more personalized buying experiences.

4. Destabilized Markets

Our world is becoming more volatile, which has an impact on global and local market behavior. Terrorist attacks, insecure regimes, and global financial crises, for example, have already wreaked havoc on our economy and global connections.

5. Downturns and Upturns in the Domestic Economy

Finally, market volatility that manifests itself in domestic markets in the shape of general economic downturns or upturns should be examined. While such trends rarely have a direct impact on small businesses, they can have a significant impact on the consumer bases that such enterprises rely on

A VUCA environment is one that is constantly changing and unpredictable. In a VUCA environment, everything is in flux and nothing is certain. This can be disorienting and difficult to navigate. Leaders in a VUCA environment must be able to adapt to change quickly and make decisions without complete information.

The VUCA environment can be a difficult one to navigate, but there are some strategies that leaders can use to effectively lead in this type of environment. Some of the strategies that can be used to lead in a VUCA environment include staying informed about what is happening around you, developing strong relationships with your team members, and communicating effectively. Understanding the VUCA environment and how to lead in this type of environment has proven to be a useful tool for many leaders.

Importance of VUCA in the business world

VUCA has since been adopted in the business world to describe the rapidly changing and unpredictable environment that organizations must navigate. The importance of VUCA can be summarized as follows:

Helps organizations prepare for the unexpected: VUCA reminds organizations that the future is uncertain and that they must be prepared to adapt to changing circumstances. This means having contingency plans in place and being agile enough to pivot quickly in response to new information.

1. **Drives innovation:** VUCA creates a sense of urgency for organizations to innovate and stay ahead of the curve. Organizations that are able to anticipate and respond to changing market conditions are more likely to be successful.
2. **Improves decision-making:** VUCA requires organizations to make decisions quickly and with limited information. This means that decision-makers must be comfortable with ambiguity and be able to think critically in complex situations.
3. **Encourages collaboration:** VUCA requires organizations to work together and leverage the collective intelligence of their teams. This means breaking down silos and encouraging cross-functional collaboration.
4. **Fosters resilience:** VUCA challenges organizations to build resilience and develop the ability to bounce back from setbacks. This means cultivating a culture of learning and continuous improvement.

In conclusion, VUCA highlights the importance of being prepared for a rapidly changing and unpredictable environment. Organizations that are able to anticipate and respond to changing market conditions will be more successful in the long run.

By fostering innovation, improving decision-making, encouraging collaboration, and building resilience, organizations can thrive in a VUCA world.

Uncertainty is a part of life, but it's not that great in a work environment. This is why in a VUCA environment – where tasks vary, people rotate, and the market is competitive and therefore draws our constant attention as to how it changes and where it's headed – an Agile Work Methodology is key.

There's something we could call **inverted VUCA**, or simply the other side of VUCA, that lists the type of values that can help business leaders navigate uncertainty:

- **Vision** (or strategic foresight and good leadership),
- **Understanding** (thanks to data analysis, brainstorming, empathy maps, market research),
- **Clarity** (the ability to simplify and communicate with others to solve complex problems), and
- **Agility** (the ability to adapt and respond to change quickly)

To build these values into an organization, collaboration, trust, and transparency are key.

Five Action Steps to Increase VUCA Preparedness

In order to survive and thrive in a VUCA world, an organization requires:

1. a **clear vision** of why it exists and where it wants to go,
2. strategic thinking and leadership to get it there, with **every team member pulling in the same direction**,
3. analytics and routines to **measure progress** along the way,
4. a corporate culture that **breaks down silos** to deal with complexity and ambiguity,
5. agility to **respond quickly to change**.

Here are some **key principles for leading** in a **VUCA business environment**:

1. **Vision:** A clear vision is essential for navigating a VUCA environment. Leaders must be able to articulate a compelling vision that inspires and motivates their teams to adapt to changing circumstances.
2. **Adaptability:** Leaders must be able to adapt quickly to changing circumstances and make decisions in an environment of uncertainty. This means being comfortable with ambiguity and being able to think creatively to find new solutions.
3. **Collaboration:** Collaboration is essential in a VUCA environment. Leaders must foster a culture of teamwork and encourage their teams to work together to solve complex problems.
4. **Resilience:** Leaders must be resilient and able to bounce back from setbacks. This means cultivating a culture of learning and continuous improvement and being willing to take risks and experiment.
5. **Communication:** Communication is critical in a VUCA environment. Leaders must be able to communicate clearly and effectively with their teams and stakeholders, and be transparent about the challenges and opportunities facing the organization.
6. **Agility:** Agility is essential for navigating a VUCA environment. Leaders must be able to pivot quickly in response to changing market conditions and be willing to experiment and try new approaches.

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