Textbook written according to revised syllabus of F.Y.B.Com.
prescribed by University of Pune from 2013-2014.
Also useful for other universities in Maharashtra.

Business Environment and Entrepreneurship

Prof. Ravindra Kothavade

M.Com., M.I.M.A.,
(Head of the Commerce Dept.)
C. T. Bora Collage, Shirur, Dist. Pune

Diamond Publication

Business Environment and Entrepreneurship

Prof. Ravindra Kothavade

First Edition : June 2013

ISBN 978-81-8483-536-6

© Diamond Publications

Cover Page :
Sham Bhalekar

Printing :
Padmarekha Arts, Pune

Published by :
Diamond Publications
264/3 Shaniwar Peth, 302 Anugrah Apartment
Near Omkareshwar Temple, Pune - 411 030
☎ 020-24452387, 24466642

info@diamondbookspune.com
www.diamondbookspune.com

Sale Distributor :
Diamond Book Depot
661 Narayan Peth
Appa Balwant Chowk
Pune 411 030
Tel. - 24480677, 66020282

All rights reserved. No part of this book may be reproduced or utilised in any form and by any means, electronic or mechanical, including photocopying, recording or by any information storage or retrieval system, without permission in writing from the publisher.

University of Pune
(2013 - 14)
F.Y.B.Com.
Optional Paper
Subject Name : Business Environment and Entrepreneurship

Objectives :

1. To make the students aware about the Business Environment.
2. To create entrepreneurial awareness among students,
3. To motivate students lo make their mind set for taking up entrepreneurship as career.

Term I

Unit No.	Topic
1.	Business Environment - Concept- Importance - Inter relationship between environment and entrepreneur, Types of Environment- Natural, Economic - Political - Social - Technical - Cultural - Educational - Legal - Cross-cultural - Geographical etc.
2	Environment Issues Protecting the Natural Environment – prevention of pollution and depletion of natural resources; conservation of natural resources, Opportunites in Environment.
3	Problems of growth Relevance to entrepreneurship - Unemployment- Poverty-Regional imbalance- Social injustice- Inflation - Parallel Economy- Lack of Technical knowledge and information.
4	The Entrepreneur- Evolution of the term entrepreneur-" Competencies of an entrepreneur - Distinction between entrepreneur and manager- Entrepreneur and enterprise - Entrepreneur and Intrapreneur. Entrepreneur and Entrepreneurship.

TERM - II

Unit No.	Topic
1	Entrepreneurial Behaviour - Comparison between entrepreneurial and non-entrepreneurial Personality-Habits of Entrepreneurs - Dynamics of Motivation
2	Entrepreneurship Importance of Entrepreneurship - Economic Development and Industrialization, Entrepreneurship in Economic Theory- Role of Entrepreneurship ~ Entrepreneur as a catalyst.
3	National Level Training Organizations in promoting entrepreneurship (1) Entrepreneurship Development Institute of India (EDII) State Level Training Organizations in promoting entrepreneurship (1) MCED (2) DIC (3) Maratha Chamber of Commerce and their role. (4) Local NGO's and their roles.
4	Biographical study of entrepreneurs i) Narayan R. Murthy ii) Cyruas Poonawala iii) Any successful Entrepreneur from your area (Milind Kamble)

Contents

Part I

Chapter 1.	Business Environment & Entrepreneurship	1
Chapter 2.	Environmental Issues	43
Chapter 3.	Problems of Growth	68
Chapter 4.	The Entrepreneur	105

Part II

Chapter 5.	Entrepreneurial Behavior	121
Chapter 6.	Entrepreneurship and Economy	146
Chapter 7.	Organizations and Institutions Promoting Entrepreneurship	175
Chapter 8.	Biographical Study of Entrepreneurs	193
	References	201
	Questions for Self Study	202

Chapter 1
Business Environment

Introduction:

The process of starting up and developing a business is a real challenge. In order to help entrepreneurs with this, it is essential to create a favorable business environment. Ensuring easier access to funding, making legislation clearer and more effective and developing an entrepreneurial culture and support networks for businesses are all important in setting up and growth of businesses.

Business does not operate in a vacuum. Generally, business operates in a multifaceted environment which is subject to a large measure of change. There is a mutual relationship between business and its environment; that is, the environment exerts pressure on business while business, in turn, influences various aspects of its environment. Business also depends on its environment for the supply of all its input and at the same time to absorb its output. The environment provides opportunities or alternative avenues for investment which the business manager can exploit to his/her advantage. The business environment may also constitute a threat to business if changes in it are unfavorable to business operations. If the business must survive in the long run, it must be capable of responding and adapting to environmental conditions from time to time as these environmental factors are dynamic in nature. Therefore, the business manager must make his/her plans, take decisions and execute them within the limits imposed by the environment.

Concept:

Business environment can be defined as a series of factors or conditions that are external to the business but which have influence on

the operations of the business enterprise. By 'external', it means that these factors or forces are not usually within the control of the business enterprise. Business environment forms the setting in which the firm makes its decisions. For the firm to succeed, it must take its environment into account in making its decisions.

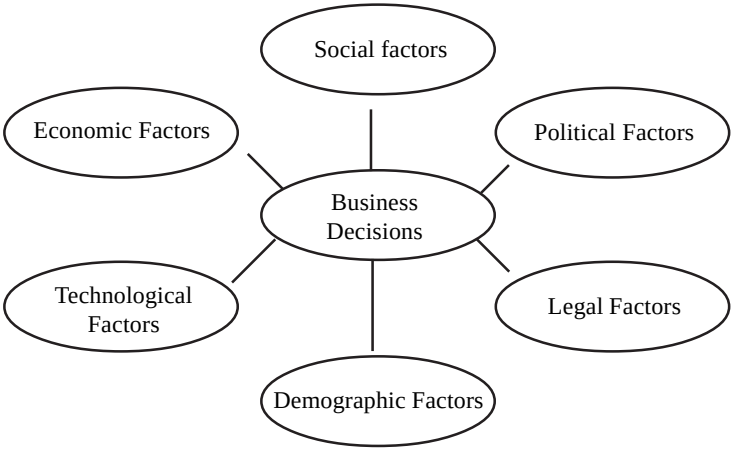
A business firm is an open system. It gets resources from the environment and supplies its goods and services to the environment. There are different levels of environmental forces. Some are close and internal forces whereas others are external forces. External forces may be related to national level, regional level or international level. These environmental forces provide opportunities or threats to the business community.

Every business organization tries to grab the available opportunities and face the threats that emerge from the business environment. Business organizations cannot change the external environment but they can adjust accordingly. They change their internal environment to grab the external opportunities and face the external environmental threats.

It is, therefore, very important to analyze business environment to survive and to get success for a business in its industry. Hence managers play a vital role to analyze business environment so that they could pursue effective business strategy. A business firm gets human resources, capital, technology, information, energy, and raw materials from society. It follows government rules and regulations, social norms and cultural values, regional treaty and global alignment, economic rules and tax policies of the government. Thus, a business organization is a dynamic entity because it operates in a dynamic business environment.

The term 'business environment' is affected by external forces, factors and institutions that are beyond the control of the business. These include customers, competitors, suppliers, government, and the social, political, legal and technological factors etc. While some of these factors or forces may have direct influence over the business firm, others may operate indirectly. Thus, business environment may be defined as the total surroundings, which have a direct or indirect impact 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, and technical factors etc., which are uncontrollable in nature and affects the business decisions of a firm.



Thus following are the chief characteristics of the business environment:

1. Totality of External Forces:

Business environment is the sum totals of all those factors which are available outside the business and over which the business has no control.

2. Specific and General Forces:

Specific forces affect the firms of an industry separately, e.g., customers, suppliers, competitive firms, investors, etc. And General forces affect all the firms of an industry equally, e.g., social, political, legal and technical situations.

3. Interrelatedness:

The different factors of business environment are co-related. For example, let us suppose that there is a change in the import-export policy with the coming of a new government. In this case, the coming of new government to power and change in the import-export policy are political and economic changes respectively. Thus, a change in one factor affects the other factor.

4. Dynamic Nature:

As is clear that environment is a mixture of many factors and changes in some or the other factors continue to take place. Therefore, it is said that business environment is dynamic.

5. Uncertainty:

Nothing can be said with any amount of certainty about the factors of the business environment because they continue to change quickly. The professional people who determine the business strategy take into consideration the likely changes beforehand. But this is a risky job. For example, technical changes are very rapid. Nobody can anticipate the possibility of these swift technical changes. Anything can happen, anytime. The same is the situation of fashion.

6. Complexity:

Environment comprises of many factors. All these factors are related to each other. Therefore, their individual effect on the business cannot be recognized.

7. Relativity:

Business environment is related to the local conditions and this is the reason as to why the business environment happens to be different in different countries and different even in the same country at different places.

Importance:

As we know, business environment refers to the surrounding factors of business enterprise which affect its operation and determines its effectiveness. Now-a-days modern business is not independent. It cannot work in isolation. So to achieve its economic goal, it cannot ignore the interest of the society. The government of the country also has the interest in business affairs. It enacts legislation, formulates business policies and controls business in the best interest of people.

Thus we can say that business environment is a wide term as it has got two dimensional relationships with the environment. On the one hand it affects the social, political and economic environment and on the other hand it is affected by country's social, political, economic and legal environment.

An analysis of business environment helps to identify strength, weakness, opportunities & threats to the business enterprise. Analysis is very necessary for the survival and growth of the business enterprise. The importance of business environment can be briefly explained as below.

1. Identification of Strength:

The analysis of the internal environment helps to identify strength of the firm. For instance, if the company has good personal policies in respect of promotion, transfer, training, etc. then it indicates the strength of the firm in respect of personal policies. This strength can be identified through the job satisfaction and performance of the employees. After identifying the strengths the firm must try to consolidate its strengths by further improvement in its existing plans and policies.

2.Identification of Weakness:

The analysis of the internal environment indicates not only strengths but also the weakness of the firm. A firm may be strong in certain areas; whereas it may be weak in some other areas. The firm should identify such weaknesses so as to correct them as early as possible.

3.Identification of Opportunities:

An analysis of the external environment helps the business firm to identify the opportunities in the market. The business firm should make every possible effort to grab the opportunities as and when they come.

4.Identification of Threats:

Business may be subject to threats from competitors and others. Therefore environmental analysis helps to identify threats from the environment identification of threats at an earlier date is always beneficial to the firm as it helps to take preventive measures for the same.

5.Exploitation of Business Opportunities:

Environment opens new opportunities for the expansion of business activities. Study of environment is necessary in order to discover and exploit such opportunities fully.

6.Keeping Business Enterprise Alert:

Environment study is needed as it keeps the business unit alert in

its approach and activities. In the absence of environmental changes, the business activities will be dull and lifeless. The problems and prospects of business can be understood properly through the study of business environment. This enables an enterprise to face the problems with confidence and secure the maximum benefits of business opportunities available.

7.Keeping Business Flexible and Dynamic:

Study of business environment is needed for keeping business flexible and dynamic as per the changes in the environmental forces. This will enable the development of business organization.

8.Understanding Future Problems and Prospects:

The study of business environment enables to understand future problems and prospects of business in advance. This enables business organizations to face the problems boldly and also take the benefit of favorable situation.

9. Making Business Socially Acceptable:

Environment study enables businessmen to expand the business and also make it acceptable to different social groups. Business organizations can make positive contribution for maintaining ecological balance by studying social environment.

10.Ensures Optimum Utilization of Resources:

The study of business environment is needed as it ensures optimum use of resources available. For this, the study of economic and technological environment is useful. Such study enables organization to take full benefit of government policies, concessions provided, and technological developments and so on.

11.Ensures Survival and Growth:

Study of Business environment informs about suitable changes to be affected in business policies. This helps the business organizations to grow & prosper.

12.Maintaining adaptability to changes:

Business environment guides the business organization about socio-economic changes & the organization must accordingly adapt these changes. This enables the business organization to survive for a longer period.

Interrelationship between Environment and Entrepreneur:

Every member of the society must work under the sphere of natural environment and therefore relationship with natural environment with that of an entrepreneur must be studied.

Environment:

The natural environment encompasses all living and non-living things occurring naturally on Earth or some region thereof. It is an environment that encompasses the interaction of all living species.

Entrepreneur:

The entrepreneur is an individual who, rather than working as an employee, runs a small business and assumes all the risk and reward of a given business venture, idea, or good or service offered for sale. The entrepreneur is commonly seen as a business leader and innovator of new ideas and business processes.

Environment brings certain threats as well as opportunities to the organization and every entrepreneur must look for them in order to succeed in achieving goals of the organization.

Interrelationship between environment and entrepreneur can be stated in a following manner:

a) Environment is an outer sphere in which entrepreneur must work for the organizational benefit. Opportunities and threats from the environment must be studied and evaluated accordingly.

b) In India three legislations are active for industries to remain within the pollution control standards set by Government.
   1) Water (Prevention and Control of Pollution) Act, 1974, with amendments made in 1988
   2) Air (Prevention and Control of Pollution) Act, 1981, with 1987 amendments
   3) Environment (Protection) Act1986

Every entrepreneur must study these legislations in detail and work out business plans accordingly. Provisions of these laws are very crucial for the implementation of business plans. Care must be taken while formulating strategies and those must be made in light of these three laws.

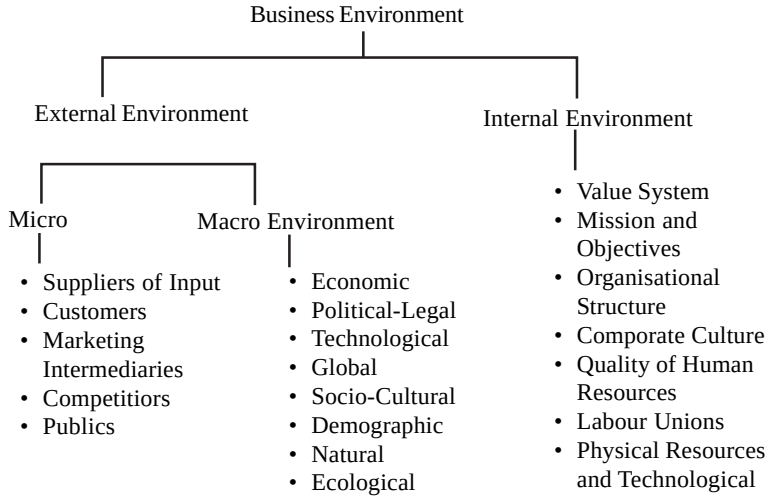
c) Raw material procurement is an important issue which needs attention from today's entrepreneurs because shortage of raw material is increasing rapidly and hence raw material wastage must be looked for and audit must be planned for raw material management.

d) Global Warming: Scientists say that unless we reduce global warming emissions, average global temperatures could rise and lead to undesirable economic, climatic, biodiversity and public health consequences. Momentum to address global warming has undeniably accelerated in recent years, heightened by media and entertainment industry attention to the reality and impacts of global warming, as well as attitude changes in federal, state and local legislatures.

This critical issue must be taken in to consideration while managing business. Entrepreneur needs to be dynamic while reacting to the external environment forces.

Types of Environment:

There are mainly two types of business environment, internal and external. A business has absolute control in the internal environment, where as it has no control over the external environment. It is therefore, required by businesses, to modify their internal environment on the basis of pressures from external.



1. External Environment:

A) External Micro- Environment:

Micro environment includes those people whose decisions and actions have a direct impact on the company. Production and selling of commodities are the two important aspects of modern business. The various constituents of micro environment are as below:

a. Suppliers of inputs: An important factor in the external micro environment of a firm is the supplier of its inputs such as raw materials and components.

b. Customers: The people who buy and use a firm's product and services are an important part of external micro environment. Since sales of a product or service is critical for a firm's survival and growth, it is necessary to keep the customers satisfied.

c. Marketing intermediaries: In the firm's external micro environment, marketing intermediaries play an essential role of selling and distributing its products to the final customers. Marketing is an important link between a business firm and its ultimate customers.

d. Competitors: Different firms in an industry compete with each other for sale of their products. This competition may be on the basis of pricing of their products and also non- price competition through competitive advertising such as sponsoring some events to promote the sale of different varieties and models of their products.

e. Publics: Finally, publics are an important force in external micro environment. Public, according to Philip Kotler, "is any group that has an actual or potential interest in or impact on the company's ability to achieve its objective." Environmentalists, media groups, women's associations, consumer protection groups, local groups, citizens association are some important examples of publics which have an important bearing on the business decisions of the firm.

B) External macro environment:

Apart from micro environment, business firms face large external

environmental forces. An important fact about external macro environmental forces is that they are uncontrollable by the management. Because of the uncontrollable nature of macro environment, it forces a firm to adjust or adapt to these external forces. These factors are:

a. Economic Environment: Economic environment includes all those forces which have an economic impact on business. Accordingly, total economic environment consists of agriculture, industrial production, infrastructure, and planning, basic economic philosophy, stages of economic development, trade cycles, national income, savings, money supply, price level and population.

b. Political-legal Environment: The political- legal environment includes the activities of three political institutions, namely, legislature, executive and judiciary which usually play a useful role in shaping, directing, developing and controlling business activities. In order to attain a meaningful business growth, a stable and dynamic political-legal environment is very important.

c. Technological Environment: Technology implies systematic application of scientific or other organized knowledge to practical tasks or activities. Business makes it possible for technology to reach the people in proper format. As technology is changing fast, businessmen should keep a close look on those technological changes for its adaptation in their business activities.

d. Global or International Environment: The Global environment plays an important role in shaping business activity. With the liberalization and globalization of the economy, business environment of an economy has become totally different wherein it has to bear all shocks and benefits arising out of global environment.

e. Socio-cultural Environment: The social and cultural environment also influences the business environment indirectly. These includes people's attitude to work and wealth, ethical issues, role of family, marriage, religion and education and also social responsiveness of business.

f. Demographic environment: The demographic environment includes the size and growth of population, life expectancy of the people, rural-urban distribution of population, the technological skills and educational levels of labor force. All these demographic features have an important bearing on the functioning of business firms.

g. Natural Environment: The Natural environment influences business in diverse ways. The natural environment is the ultimate source of many inputs such as raw materials and energy. In fact, the availability of natural resources in the region or country is the basic factor in determining business activity in it. The natural environment which includes geographical and ecological factors such as minerals and oil reserves, water and forest resources, weather and climatic conditions and port facilities are all highly significant for various business activities. For example, steel producing industries are set up near the coalmines to save cost of transporting coal to distant locations. The natural environment also affects the demand for goods. For example, in places where temperatures are high the demand for coolers and air conditioners are high. Similarly, weather and climatic conditions influence the demand pattern for clothing, building materials for housing etc. Natural calamities like floods, droughts, earthquake etc. are devastating for business activities.

h. Ecological environment: Due to the efforts of environmentalists and international organizations such as the World Bank the people have now become conscious of the adverse effects of depletion of exhaustible natural resources and pollution of environment by business activity. Accordingly, laws have been passed for conservation of natural resources and prevention of environment pollution. These laws have imposed additional responsibilities and costs for business firms.

2) Internal Environment:

The factors in internal environment of business are to a certain extent controllable because the firm can change or modify these factors to improve its efficiency. However, the firm may not be able to change all the factors.

The various Internal Factors are:

a. Value system:

The value system of an organization means the ethical beliefs that guide the organization in achieving its mission and objectives. It is a widely acknowledged fact that the extent to which the value system is shared by all in the organization is an important factor contributing to its success.

b. Mission and objectives:

The business domain of the company, direction of development, business philosophy, business policy etc. are guided by the mission and objectives of the company. The objective of all firms is assumed to be maximization of profit. Mission is defined as the overall purpose or reason for its existence which guides and influences its business decision and economic activities.

c. Organization Structure:

The organizational structure, the composition of the board of directors, the professionalism of management etc. are important factors influencing business decisions. An efficient working of a business organization requires that the organization structure should be conducive for quick decision-making.

d. Corporate culture:

Corporate culture is an important factor for determining the internal environment of any company. In a closed and threatening type of corporate culture the business decisions are taken by top level managers while the middle level and lower level managers have no say in business decision making. This leads to lack of trust and confidence among subordinate officials of the company. This results in a sense of separation among the lower level managers and workers of the company. In an open and participating culture, business decisions are taken by the lower level managers and top management has a high degree of confidence in the subordinates.

e. Quality of human resources:

Quality of employees that is of human resources of a firm is an important factor of internal environment of a firm. The

characteristics of the human resources like skill, quality, capabilities, attitude and commitment of its employees etc. could contribute to the strength and weaknesses of an organization. Some organizations find it difficult to carry out restructuring or modernization plans because of resistance by its employees.

f. Labor Unions:

Labor unions collectively bargains with the managers for better wages and better working conditions of the different categories of workers etc. For the smooth working of business firm good relations between management and labor unions is required.

g. Physical resources and technological capabilities:

Physical resources such as plant and equipment and technological capabilities of a firm determine its competitive strength which is an important factor for determining its efficiency and unit cost of production. Research and development capabilities of a company determine its ability to introduce innovations which enhances productivity of workers.

We will now concentrate more deeply on Macro environment viz. Natural, Economic, Political, Social, Technical, Cultural, Educational, Legal, Cross-cultural and Geographical.

1) Natural Environment:

As mentioned earlier the natural environment is the source of many inputs such as raw materials and energy. Availability of natural resources affects most of the business activity. The natural environment which includes geographical and ecological factors such as minerals and oil reserves, water and forest resources, weather and climatic conditions and port facilities are all highly significant for various business activities. The Natural Environment also affects the demand from the customers.

So the Natural Environmental Factors that affect business are:

Companies in the industrial or manufacturing industry often work with different kinds of equipment, machinery and chemical-producing agents. In effect, a business' day-to-day operations can have an impact on the natural environment. To reduce the likelihood of damage to the

environment, federal and state regulations require businesses consider certain natural environmental factors in their overall operations plans.

1. Environmental Regulations:

Regulating business activities is one way government agencies protect the environment. Businesses must meet certain standards that help to reduce any adverse effects a company's activities have on the environment. As a result, natural environmental factors, such as clean water and clean air, dictate how companies conduct their day-to-day operations.

2. Permit Requirements:

Companies involved in activities that impact their surrounding environment typically have to file for operating permits through a local, state or federal government agency. Business permit requirements enable government agencies to regulate and keep track of business activities. These permits serve different purposes, some of which include setting minimal standards for any air emissions, dictating certain procedures for handling waste and hazardous materials and regulating how a company's day-to-day operations interact with nearby water supplies. In effect, natural environmental factors determine the types of operations a company can engage in within a particular locale or region.

3. Compliance Requirements:

Natural environmental factors affect a business' operations as well as its ability to expand or take on new operations. In effect, companies must comply with environmental regulations in all stages of a business' development. Companies considering purchasing a building should ensure the building conforms to environmental regulations or risk paying penalties for noncompliance. Building expansions must also meet regulatory requirements. Companies that have a record of noncompliance may risk having their operations shut down on a permanent basis. Ultimately, natural environmental factors affect a company's overall costs in terms of ensuring equipment and procedures meet regulatory requirements.

4. Environmental Contaminants:

Businesses that work with hazardous materials on a regular basis have certain responsibilities when it comes to ensuring contaminants

don't reach or affect the natural environment. There are laws which hold business owners liable for activities that contaminate surrounding air, soil or water supplies. These laws even apply to new business owners who unknowingly purchase a contaminated site or purchase an operation that fails to meet compliance standards. Ultimately, owners, both old and new, must cover cleanup costs as well as the costs of restoring a property to required environmental standards.

Natural Environment is again important to businesses that directly rely on the environment, e.g. tourism or mining industries. So the benefits derived from Natural environments are.

Benefit	**Meaning**
Provisioning	Providing goods such as fuel, energy, water, food, timber/paper etc.
Regulatory	Providing regulation in the climate, disease, flooding, etc.
Cultural	Meeting recreational, spiritual, aesthetic, inspirational needs etc.
Supporting	Supporting the above 3 benefits, for example, soil formation, nutrient recycling, etc.

2) Economic Environment:

The economic environment of a business refers to the broad characteristics of the economic system in which a business firm operates. The present day economic environment of business is a complex phenomenon. The business sector has economic relations with the Government, the capital market, the household sector and the foreign sector. These different sectors, together, influence the trends and structure of the economy. The form and functioning of the economy varies from country to country. The design and structure of an economic system is conditioned by socio-political arrangements. Such arrangements are relevant from the standpoint of macro-economic decision-making.

For example, in a democratic set up, people exercise an influence, direct or indirect, through the system of casting votes, on the nature of the decisions taken by the Government. In a parliamentary system, most decisions are processed by Cabinet ministers, whereas under a