II SEM

BUSINESS ENVIRONMENT AND ENTREPRENEURSHIP

Syllabus

Module I

Meaning, factors influencing business, internal and external factors: social responsibilities towards shareholders, employees, consumers

MODULE I

Meaning- factors influencing business- internal and external factors

Social responsibilities of business towards shareholders, employees, consumers, dealers and public.

Business ethics and social value- meaning, principles, managerial and professional ethics.

Case studies on social responsibilities of business, business ethics and environment.

Business

Any human activity undertaken on a regular basis with the objective to earn profit through production, distribution, sale or purchase of goods and services. It is an activity involving regular production or purchase of goods and services for sale, transfer and exchange with an objective of earning profit.

Characteristics of business:

1. Sale or exchange of goods and services: the goods and services produced or provided must be exchanges for money or for goods between buyers and sellers.
2. Regularity of transaction: the production or the provision must be carried out on a regular basis. Single time transaction is not treated as business.
3. Profit motive: the primary objective of the business must be earning profit.
4. Involves risk and uncertainty: the reward what a businessman gets is always uncertain and there are chances of incurring losses also.

Objectives of business:

Business objectives can be classifies into,

I. Economic objectives
   a. Earning of profit
   b. Creation of customers
   c. Continuous innovation
   d. Best use of available resources
II. Social objectives
   a. Production and supply of quality goods and services
   b. Contribution to the general welfare of the society
III. Human objectives
   a. Economic wellbeing of the employees
   b. Social and psychological satisfaction of employees

c. Development of human resources
d. Wellbeing of socially and economically backward people

IV. National objectives
a. Creation of employment
b. Promotion of social justice
c. Production according to national priority
d. Contribute to the revenue of the country
e. Self-sufficiency and export promotion

V. Global objectives
a. Raise general standard of living
b. Reduce disparities among the nations
c. Make available globally competitive goods and services.

Business environment

Business environment consists of all those factors that have an influence on the business. They can be both internal factors and external factors.

I. Internal environment
   a. Value system: the value system of the founders and the top management has important bearing on the choice of business, the mission and the objectives of the organisation and the policies and practices of the business.
   b. Mission. Vision and objectives: vision is the ability to think about the future with imaginations and wisdom. The mission is the medium through which the objectives are achieved and the objectives are the aims of the business.
   c. Nature and structure of the management: The structure and the nature of the management also influence the business. The relationship among the different levels of the management, the mutual co-ordination etc influences the success of the business.
   d. Human resource: The human resource of any organisation must have the characteristics like skills, quality, morale, commitment towards work, attitudes etc.
   e. Physical assets and other facilities: facilities like production capacity, technology are some of the factors which influences the competitiveness of the firm.
   f. Research and development: This determines the company's ability to innovate and compete.
   g. Marketing resources: the organisation of the marketing department, quality of marketing men, brand equity, distribution network have direct bearing on the marketing efficiency of the business.
   h. Financial factors: the financial policies, strategies, financial position and capital structure also has impact on the business.

II. External environment: It is divided into Micro and Macro environment.
   A. Micro environment
      a. Suppliers: those who supply inputs like raw materials and components to the business.
      b. Customers: a business exists only because of its customers. The number of customers, the types, age, religion, education profession etc influences the business to a greater extent.
      c. Marketing intermediaries: They include the wholesalers, retailers and agents who help the business in finding customers and sell the products.

d. Financiers: Financiers are those who supply money to the business at the time required.
e. Public: Any group of people who have some interest in the business.

B. Macro environment

I. Economic environment: It consists of all the economic factors which affects the business. Economic environment includes,
   a. Interest rates
   b. Taxes
   c. Inflation
   d. Currency exchange rates
   e. Discretionary income of consumers
   f. Savings
   g. Unemployment rates
   h. Recession
   i. Depression
   j. Size of the market
   k. Demand
   l. Supply
   m. Competition
   n. Retail stores
   o. Per capita income
   p. Economic system –Capitalist, socialist, mixed economy

II. Technical environment: technology is the systematic application of scientific or other organised knowledge to practical tasks. Some of the technological factors which affect the business are,
   a. Cost of technology
   b. Increased productivity
   c. Need to spend on R&D
   d. Changes in technology
   e. High expectations of consumers
   f. System complexity
   g. Demand for capital

III. Demographic environment
   a. Population size
   b. Death rate
   c. Migration
   d. Age and sex of population
   e. Income
   f. Ethnicity
   g. Profession

IV. Socio-cultural environment
   a. Culture determines the goods and services consumed
   b. Caste system
   c. Collectivism and individualism
   d. Education
   e. Family system

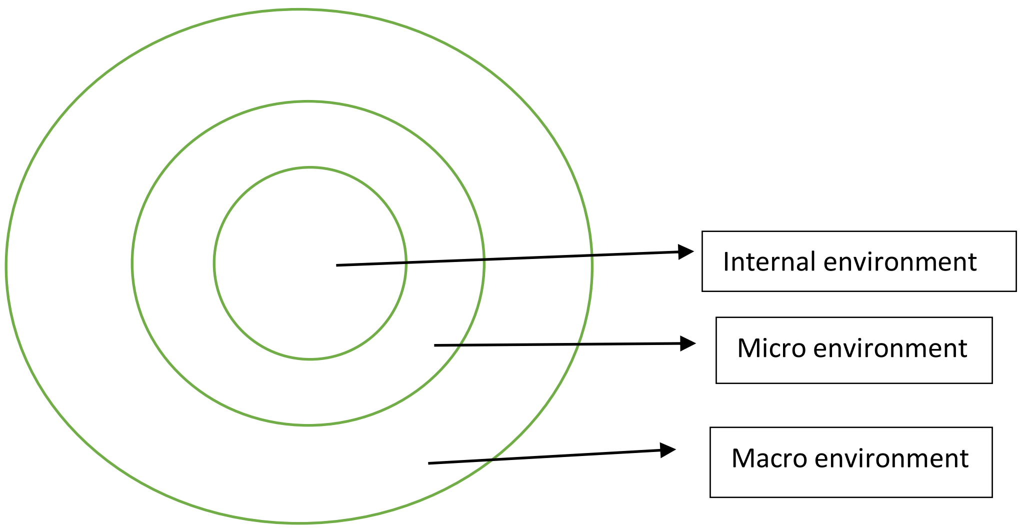
f. Marriage
g. Ethics
h. Social responsibility

V. Political environment
a. Changes in government regulations
b. Political stability

VI. Legal environment
a. Controlling what to produce
b. Employee protection legislations
c. Legislations for health and safety at work
d. Ensure fair wages
e. Consumer protection legislations
f. Weights and measures Act
g. Trade Description Act
h. Consumer Credit Act
i. Sale of goods Act

VII. Natural environment
a. The geographical factors
b. Availability of resources
c. Pollution
d. Weather and climate

VIII. Global environment
a. Global competition
b. Increasing opportunities
c. Capital and technology transfer
d. Improving quality



Social responsibilities of business towards shareholders, employees, consumers, dealers and public.

Social responsibility of business means, the obligations of the business to take actions which protect and improve the welfare of the society as a whole.

Arguments in favour of social responsibility:

1. Changed public expectations of business
2. Better environment for business
3. Better public image
4. Avoiding government regulations
5. Prevention is better than cure
6. Moral responsibility
7. Duty of gratitude

Arguments against social responsibility:

1. Profit maximisation
2. Society has to pay the cost
3. Lack of social skills
4. Extra cost
5. Lack of accountability

Responsibilities towards shareholders:

1. Earning fair profit
2. Ensuring fair and profitable return on capital
3. Guaranteeing capital appreciation
4. Regular payment of dividends
5. Earning goodwill

Towards employees:

1. Good practices of selection
2. Providing required training
3. Proper promotion practices
4. Fair wages
5. Good working conditions
6. Safety and health provision
7. Employee participation in management
8. Worker's education
9. Provision of other benefits

Towards consumers:

1. Good quality goods at fair prices
2. Continuous supply
3. Avoiding artificial scarcity
4. Truthful advertisements
5. After-sale services
6. Prevention of monopolies

Towards dealers:

1. Prompt payment
2. Regular supply
3. Motivations

Towards government

1. Prompt payment of taxes
2. Following the legal requirements
3. Executing government contracts
4. Producing goods according to the government priority
5. Joining hands with the government during emergencies

Towards public

1. Not creating any public disturbance
2. Not dealing in anti-social activities
3. Pollution control
4. Creating employment opportunities
5. Not supplying goods harmful to the society

Business ethics and social value- meaning, principles, managerial and professional ethics.

Case studies on social responsibilities of business, business ethics and environment

You will study the above two topics in the subject Business Ethics.

Module II

Private, Public, and Corporate sectors, MSMEs, MNCs

Private sector:

1. Proprietary concerns/sole proprietors/sole trading organisations

This is one of the oldest and simplest form of business organisation. According to Gerstenberg, "That form of organisation which is started and run by one person who bears profits and losses of it."

Features:

1. Oldest and simplest form of organisation
2. No legal formalities to be followed to form the organisation
3. Owned and managed by a single person
4. The capital is invested by the single owner.
5. Makes uses of the services of the members of his own family.
6. The sole trader assumes all the risk of the business.
7. The business do not have separate legal existence.
8. The liability of the owner is unlimited.

Advantages/merits

1. No legal formalities are necessary for the formation
2. Simple in nature.
3. The owner can enjoy all the profits.
4. There is lot of motivation to the owner.
5. The owner can maintain personal supervision over the work.
6. Personal contact with the consumers.
7. Decisions can be taken quickly.
8. Need not publish its accounts.
9. Business secrets can be maintained.
10. No disputes.
11. The unlimited liability helps to get credit.
12. Provides self-employment.

Disadvantages/demerits:

1. Limited capital
2. Limited managerial ability.
3. Cannot enjoy economy of large scale production
4. Decisions may be wrong. (two heads are better than one)
5. He has to bear all the losses
6. The scale of business is usually small.
7. unlimited liability
8. The life of the business will be affected by the death, insolvency or insanity of the owner.

Partnership firms:

Partnership firm refers to the relationship between two or more persons who have agreed to share the profits of a business carried on by all or any one of them acting for all.

Definition:

According to section 4 of the partnership Act 1932, "Partnership is the relation between persons who have agreed to share the profits of a business carried by all or any one of them acting for all".

Features or characteristics of partnership:

1. An association of two or more persons: if the business is carrying banking business, the maximum is 10 and for other business, the maximum is 20.
2. Agreement: always there is an agreement among the partners for sharing of profit/loss and the contribution of capital. The agreement is called, partnership deed.
3. Business: the agreement should be to carry out legal business.
4. Sharing of profits: the profits/losses is always shared in an agreed proportion.
5. No separate entity: partnership business does not enjoy any legal identity.
6. Mutual agency: all the partners are the agents of the firm.
7. Unlimited liability of the partners: the partner's liability is unlimited.

Differences between sole trading and partnership firms:

Sole trading organisation	Partnership firms
Owned by single person	Owned by two or more people
Limited capital	Comparatively more capital
Less managerial ability	More managerial ability
Less scope for expansion	More scope for expansion
Entire work is done by one person	Sharing of work
The decisions may go wrong	Better decisions
Less personal contact with people	More personal contact
All the risks are to be taken by the single person	Risks can be shared.
All the profits are enjoyed by the single person	Sharing of profits
Business comes to an end on the death, insolvency or insanity of the owner	The business can be continued by the other partners.
No disputes	There may be disputes
Business secrets can be maintained	May not be possible to maintain the secrets.
Cannot be registered	Is registered under the Partnership Act.

Kinds of partnership:

- On the basis of liability
  - General/unlimited
  - Limited partnership
- On the basis of duration
  - Partnership for fixed term
  - Particular partnership
  - Partnership at will

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Types of partners:

1. Active/actual/working/ostensible partner: Takes active part in the day-to-day activities of the business.
2. Sleeping, Dormant or financing partner: Just contributes capital and shares the profits/losses but doesn't take any part in the activities of the business.
3. Nominal/fictitious or partner in name only: He doesn't contribute capital or shares profits/losses but only gives his name.
4. Partner in profits only: He shares only the profits but doesn't share any losses.
5. Sub-partner: when the partner agrees to share his share of profits in a firm with an outsider, the outsider is called the sub-partner.
6. Partner by estoppel: Where a person is represented to the outside world as a partner by any of the real partners of a firm, and if he comes to of it and does not object it, he is a partner by estoppel.
7. Minor partner: A minor cannot be taken as a partner but he can be taken as partner for profits only.

Advantages of partnership firm:

1. No legal formalities required to start.
2. Can collect more capital compared to sole trading concern.
3. Has more managerial ability.
4. Provides for expansion.
5. Scope for division of labour or specialisation.
6. There is scope for discussion of business problems.
7. The partners take a great care and interest on the activities of the business.
8. Increases the credit worthiness of the company.
9. Enjoys flexibility in operations.
10. Can maintain personal contact with the customers.
11. Need not have to publish their accounts.

Disadvantages:

1. There are chances of disputes among the partners.
2. The capital is limited compared to joint stock companies.
3. The partner's liability is unlimited.
4. Partnership lacks continuity.
5. The shares are not transferable without the consent of all the partners.
6. Partnership firm cannot enjoy public confidence.

Joint stock companies:

According to Haney, 'A joint stock company is an incorporated association, which is an artificial person created by law, having a separate entity, with a perpetual succession and a common seal."

Features:

1. Voluntary association: No member is compelled to join the organisation.
2. Incorporated association: It is always registered under the company's Act.

3. Specific objectives: The Company can take up only those objectives for which they are formed.
4. Artificial person created by law: The Company exists in the eyes of law, it is a legal person.
5. Separate legal entity: As the joint stock companies are registered, they enjoy separate legal entity and it can enter into contract with other companies in its own name.
6. Perpetual succession or continuous existence: The Company has a long life. The life is not affected by the death, insolvency or insanity of the members.
7. Common seal: the common seal of the company is used as its signature.
8. Limited liability: The liability of the shareholders is limited.
9. Transferability of shares: The shares of the company are freely transferable. The shareholders need not have to take the consent of others to sell the shares.
10. Large membership: As there is no limit for the number of members, there is a large membership in joint stock companies.
11. Separation of ownership from management: The owners and the management are different.

Difference between partnership firms and joint stock companies:

Partnership Firms	**Joint Stock Companies**
Less members	Large number of members
Created by agreement	Created by law
Regulated by Partnership Act	Regulated by Company's Act
Registration is not compulsory	Registration is compulsory
No separate legal entity	Enjoys separate legal entity.
Unlimited liability	Limited liability
Shares are not transferable freely	Free transferability of shares
Every partner is an agent of the firm	Members are not agents of the company
Partners take part in the management	Members do not take part in the management
Do not have perpetual life	Enjoys perpetual life
Less capital	More capital
Can take up any activity	Must do the specific activity
The objectives can be changed	Objectives cannot be changed
Formation and closing is easy	It is not easy
No much government control	Subjected to government control
Audit and publishing of accounts is not required	It is compulsory
Business secrets can be maintained	Cannot be maintained
Does not enjoy much prestige	Enjoys more prestige

Kinds of companies: