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**VIRTUAL CLASSES
ORGANISED BY BOS, ICAI**

**FOUNDATION LEVEL
PAPER 4 PART II
BUSINESS AND COMMERCIAL KNOWLEDGE**

Faculty : CA Arjit Sethi



FOUNDATION LEVEL

PAPER 4 PART II

BUSINESS AND COMMERCIAL KNOWLEDGE

Chapter 2 Session 2

Business Environment

Faculty : CA Arjit Sethi



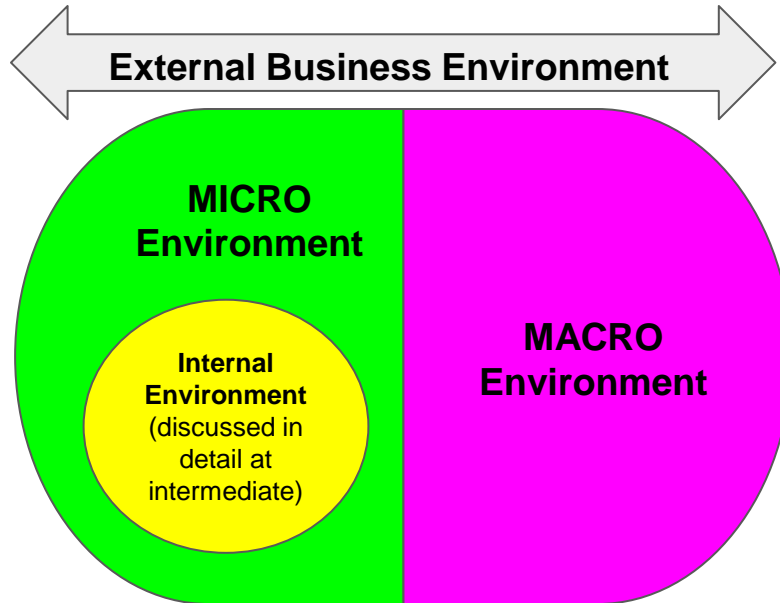
What have we studied till now in Ch2 Business Environment;

- What is Business environment? (Forces within and outside the control of business, that shape its decisions)
- Characteristics of Business Environment (It is complex, dynamic, multi-faceted, far reaching impact)
- How it influences business strategy (confines business decisions and needs constant review, exchange of information, data vs information)
- How to **Identify** them (Environment Scanning: events, trends, issues, expectations)
- How to **analyse** the Environment (SWOT Analysis)
- Two Types - Internal and External, External further has **Micro and Macro**



Where we left last time?

Internal and External Environment > External Environment has two further bifurcations **MICRO** and **MACRO**





Quick Quiz #1

Business Environment is important to understand for the following reasons, except?

- A. Gives direction for growth
- B. Overlooking Competition
- C. Determines opportunities and threats
- D. Continuous learning



Quick Quiz #1

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- A. Gives direction for growth
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Quick Quiz #2

Recent fondness of teenagers in online gaming in India, can be classified amongst which of the following?

- A. Trend
- B. Event
- C. Issue
- D. Expectation



Quick Quiz #2

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MICRO Environment ends here;

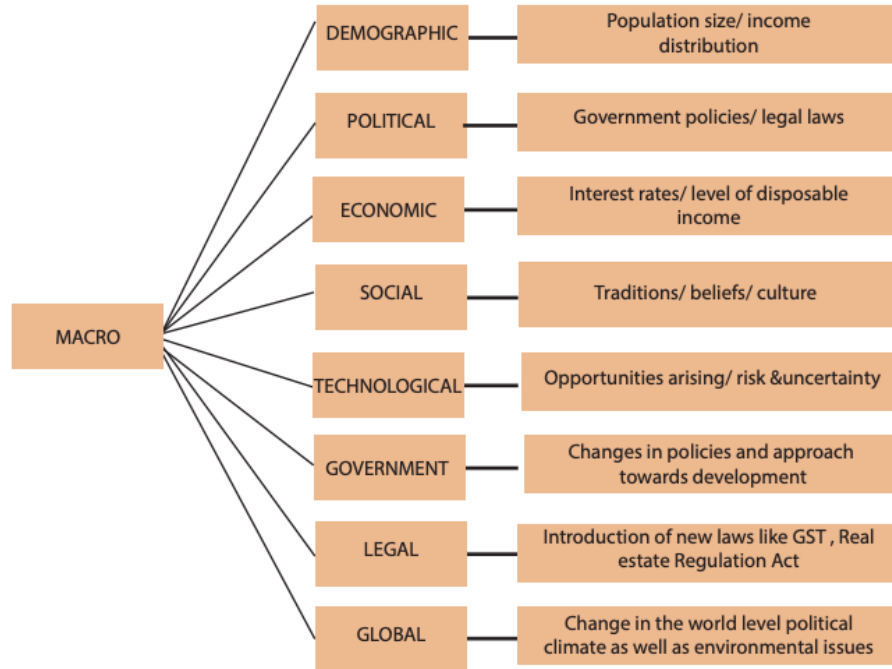
- Customers
- Competitors
- Organisation
- Market | Suppliers
- Intermediaries

Let us understand **MACRO Environment**



MACRO ENVIRONMENT

Demographic | Economic | Political-Legal | Socio-Cultural | Technological | Global





MACRO ENVIRONMENT

Demographic | Economic | Political-Legal | Socio-Cultural | Technological | Global

Demographics: Characteristics of Population of an area.

Like, Age, Gender, Employment Status, Education, Race, Income, etc.

Businesses should study demographics for two things:

- How will demographics affect the market size of the industry they are part of?
- What opportunities or threats does demographics represent for them?



Quick Quiz #3

Based on demographic understanding, which of the following countries would be more suitable to sell old-age people related products/services?

- A. India
- B. China
- C. Japan
- D. Indonesia



Quick Quiz #3

Based on demographic understanding, which of the following countries would be more suitable to sell old-age people related products/services?

- A. India
- B. China
- C. Japan
- D. Indonesia

As the maximum number of old-age people reside in Japan.



MACRO ENVIRONMENT

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Let us discuss a **few demographic characteristic** in brief:

- **Population Size**: Aim is to get the major share of the Potential Population Size. India lucrative to many companies, especially social media, because of the population size.
- **Geographic Distribution**: Urban, Rural, Metropolitan. The conditions and resources available in each category define the lucrativeness of the location. Like, transportation. Govt. support, electricity, internet connection, water availability, etc.



MACRO ENVIRONMENT

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- **Ethnic Mix:** More Diverse the demographics, more inclusive and potential the market is.

Ex: A Meat Shop in a Hindu Area would be less profitable than a meat shop in an area where the population consumes meat.

- **Income Distribution:** Tracking changes in income patterns can show up some opportunity.

Ex: A locality where more affluent service class is residing, opening an imported food items store is more viable.



MACRO ENVIRONMENT

Demographic | **Economic** | Political-Legal | Socio-Cultural | Technological | Global

Economic Environment can be best understood with two aspects:

- **Purchasing Strength of the Market**
 - **Credit/Capital Availability for Growth**
- More purchasing power of people, easier it is to sell
- Easier it is to get credit, hence more scalability of business is possible.



MACRO ENVIRONMENT

Demographic | **Economic** | Political-Legal | Socio-Cultural | Technological | Global

We shall now understand three important concepts in Economic Environment;

- **Economic Systems**
- **Economic Conditions/Factors**
- **Economic Policies**



MACRO ENVIRONMENT

Demographic | **Economic** | Political-Legal | Socio-Cultural | Technological | Global

Economic Systems

- **Capitalism**: Demand and Supply rule the market flow of goods/services.
Private Ownership of Resources. Like USA
- **Socialism**: Production controlled by State (Government), like China.
- **Mixed Economy**: Private and Public demarcation of markets. Like, India.
Railways, Coal, Mining, are all Public Owned, while other sectors are open to private players.



MACRO ENVIRONMENT

Demographic | **Economic** | Political-Legal | Socio-Cultural | Technological | Global

Economic Conditions

Factors that tell the economic state of a country/economy.

Like, Gross Domestic Product (GDP), Stock Market Conditions, Foreign Trade Policies, Interest Rates, Inflation Rates, etc.



MACRO ENVIRONMENT

Demographic | **Economic** | Political-Legal | Socio-Cultural | Technological | Global

Economic Policies

- **Industrial Policy**: Regulate and Promote Industries. MSMEs
- **Fiscal Policy**: Public Expenditure, Taxation, Public Debt
- **Monetary Policy**: Supply of Credit in the country
- **Foreign Investment Policy**: Foreign Direct Investment Rules, Ex:
Reliance Jio deals with Facebook and Google
- **Export-Import Policy (EXIM Policy)**: Increase Export, Decrease Import.
Ex: Atma Nirbhar Bharat



MACRO ENVIRONMENT

Demographic | Economic | **Political-Legal** | Socio-Cultural | Technological | Global

Three Important Elements of Political-Legal Environment:

- **Government**
- **Legal**
- **Political**



MACRO ENVIRONMENT

Demographic | Economic | **Political-Legal** | Socio-Cultural | Technological | Global

- **Government:** Changes in regulatory framework, taxes and duties, other benefiting factors. Ex: GST changed the trading landscape in India, Make In India made MSMEs the highest employment generating engine.
- **Legal:** Countries with less compliance and ease of business tend to attract more investment. business should understand the implications of laws on its operations before entering a market.



MACRO ENVIRONMENT

Demographic | Economic | **Political-Legal** | Socio-Cultural | Technological | Global

- **Political**: Political Pressure groups influence and limit organisations. Labour unions, student unions, women cells, all have become stronger with passing years. A business needs to understand the various facets of these groups to operate in unison with them.



MACRO ENVIRONMENT

Demographic | Economic | Political-Legal | **Socio-Cultural** | Technological | Global

- This macro factor is so general in nature that it influences all business in a similar manner.
- *It represents the **core culture and social beliefs of a society** which are **difficult to change**, and hence a business needs to **operate in accordance with them.***



MACRO ENVIRONMENT

Demographic | Economic | Political-Legal | **Socio-Cultural** | Technological | Global

A business can analyse the following:

- **Social Concerns**, like pollution, women empowerment, corruption, etc.
- **Social Attitudes**, like rituals, beliefs, patterns of preferences.
- **Family Structure**, like more materialistic generation, less focus on asset building
- **Education Levels**, awareness and consciousness of rights and ethics.



Quick Quiz #4

Foreign Investment Policy of the government is a part of which of the following?

- A. Socio-Culture
- B. Political-Legal
- C. Economic
- D. Demographic



Quick Quiz #4

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- B. Political-Legal
- C. **Economic**
- D. Demographic



MACRO ENVIRONMENT

Demographic | Economic | Political-Legal | Socio-Cultural | **Technological** | Global

- Technology is one the most relevant and thus, the most important element for each and every organisation in any industry.
- Dynamic and Disruptive
- Creates Opportunity
- Becomes a threat

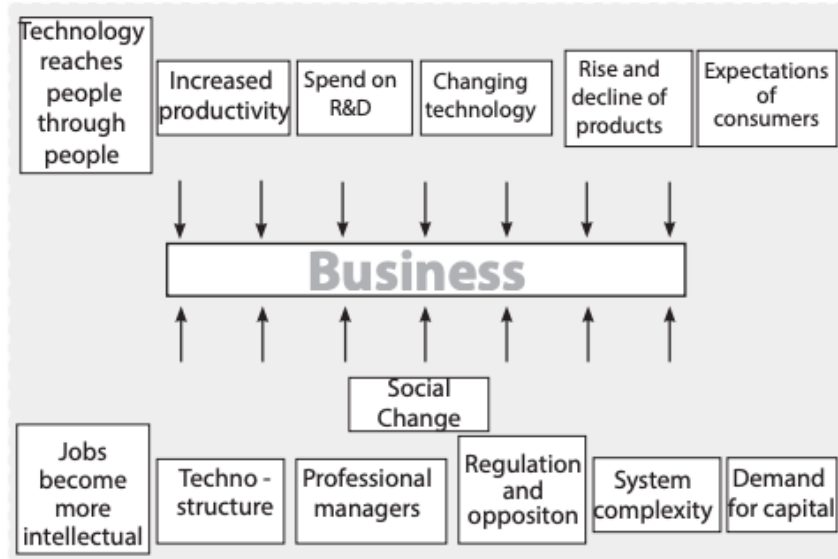


Figure: Interface between Business & Technology



MACRO ENVIRONMENT

Demographic | Economic | Political-Legal | Socio-Cultural | **Technological** | Global

A business should analyse;

- The pressure of technological change
- Opportunities being created
- Risk and Uncertainty of existing markets
- R&D expenditure of the firm as well as Government

With the advent of Electric Cars, the petroleum industry is going to find it extremely challenging, while lithium battery producers/solar energy companies are finding new opportunity of growth.



MACRO ENVIRONMENT

Demographic | Economic | Political-Legal | Socio-Cultural | **Technological** | Global

A business can analyse its current position in terms of technology by asking the following questions;

- Current technologies being used?
- How critical are they for operations?
- What new technology is disrupting the industry?
- Is it viable in terms of Return on Investment to deploy it?
- Is capital required readily available?
- Efficiency Improvement scope, in % terms?



MACRO ENVIRONMENT

Demographic | Economic | Political-Legal | Socio-Cultural | Technological | **Global**

- The world has become one. It is approachable, accessible, exploitable, and readily available to everyone.
- But it is highly dynamic and sensitive.
- A business which operates globally, or has relations (suppliers, customers, management) that are affected from global events, need to gauge the global environment on a daily basis.



MACRO ENVIRONMENT

Demographic | Economic | Political-Legal | Socio-Cultural | Technological | **Global**

A business should understand and analyse;

- **Potential +ve and -ve impact(s) of significant global events.** *Ex: Indo-China relations and TikTok*
- **Identification of global trends and markets.** *Ex: Increasing health conscious people in India. Whey protein brands coming in India.*
- **Differences between different cultural and social setups of a nation.**
Ex: Masala Dosa Burger from McDonald's



Quick Quiz #5

Intermediaries exert a considerable influence on the business organisation. This statement is true for?

- A. Internal Environment
- B. Micro Environment
- C. Global Environment
- D. Technological Environment



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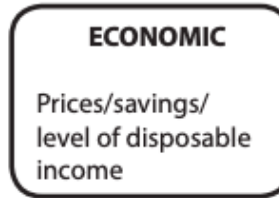


PESTLE ANALYSIS

Political



Economic



Socio-cultural

Technological

Legal

Environmental





SWOT ANALYSIS **versus** PESTLE ANALYSIS

SWOT ANALYSIS

For Environment as a whole. Both Internal as well as External.

PESTLE ANALYSIS

For MACRO (External) Environment only.



STRATEGIC RESPONSES TO THE ENVIRONMENT

INTERNAL & HOLISTIC



STRATEGIC RESPONSE TO THE ENVIRONMENT

A business should,

Utilise its strengths to exploit opportunities

and

Overcome its weaknesses to fight off the threats

Let us discuss a few approaches;

Least Resistance, Proceed with Caution and Dynamic Response



Environmental Response via Internal Strategies

A business can **approach the environment internally** through the following **THREE STRATEGIES**:

- Administrative Response
- Competitive Response
- Collective Response



Environmental Response via Internal Strategies

Administrative Response

- Most Common
- Formulating/Revising organisation's mission
- Development of objectives, policies and budgets
- This can be Proactive or Reactive to the environmental changes
- Focus is on defining the organisation's Purpose



Environmental Response via Internal Strategies

Competitive Response

- Mostly used by for-profit, but can be used by not-for-profits
- Create COMPETITIVE ADVANTAGE over the rivals
- Unique, valuable and difficult to imitate



Environmental Response via Internal Strategies

Collective Response

- Increased coordination with other firms
- Helps control interdependence
- Methods used; Contracting, Joint-Ventures, Strategic Alliance, Consortias, Bargaining Terms, etc.

Ex: Major hospitals have formed strategic alliance to cater the patients, and they use each others' expertise to sustain their business



Quick Quiz #6

HealthyRam saw that people are becoming health conscious and it decided to add more of healthy snacks options in it's restaurants. What kind of internal strategy have they tried to use?

- A. Collective
- B. Administrative
- C. Competitive
- D. I support junk food, hence, I don't like this strategy.



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STRATEGIC RESPONSE TO THE ENVIRONMENT

HOLISTIC RESPONSES

I. **Least Resistance**

- Just manage to survive by coping with change
- Objective is Goal-maintaining
- Not ambitious, very passive
- No transformation

Example, BSNL, MTNL, Nokia



STRATEGIC RESPONSE TO THE ENVIRONMENT

HOLISTIC RESPONSES

II. Proceed with Caution

- Monitor and Identify Changes
- Change their goals and objectives
- Slowly adapt to new environment
- They consider the environment as a “given” situation and react to it for survival

Example, Airtel entering new markets with caution, slow and steady.



STRATEGIC RESPONSE TO THE ENVIRONMENT

HOLISTIC RESPONSES

III. Dynamic Response

- Considering environment as controllable and manageable
- Conscious and confident of their strengths
- Try to convert threats into opportunities

Example, Reliance Jio



Quick Quiz #7

Nokia and Blackberry went out of business when their technological environment was changing at very fast pace, because they opted for?

- A. Dynamic Response
- B. Least Resistance Response
- C. Collective Strategy
- D. They proceeded with caution



Quick Quiz #7

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- B. **Least Resistance Response**
- C. Collective Strategy
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SUMMARY

- Understanding Business Environment and Characteristics
- Its Relationships and Influences on businesses
- Environment Scanning
- Internal Strategies to respond to Environment
- SWOT Analysis
- Internal and External Environment
- Micro and Macro Environment
- PESTLE Analysis
- Strategic Responses to the Environment



Thank You!
Stay Home.
Stay Safe.

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