



RAMA UNIVERSITY

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**FACULTY OF COMMERCE &
MANAGEMENT**

COURSE: BBA-DM 2nd SEMESTER

SUBJECT: BUSINESS ENVIRONMENT

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LECTURE: 3

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Lecture-3



Unit I

Relationship between Environment and Business/Business and Environment Interface

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).

If these outputs are accepted by the environment, the environment-business interaction continues but if they are unacceptable to the environment, firms adapt to the environmental requirements and change their operations.

The organisation has to look after the interest of stakeholders like shareholders, consumers, workers, suppliers etc. The environment also offers threats and opportunities to which organisations have to respond positively.

Business and environment interaction takes place in the following ways:

1. Business is affected by economic conditions of the environment. During recessionary conditions, for example, firms reduce the production or pile their inventories to sell during normal or boom conditions. Business, on the other hand, can create artificial scarcity of goods by piling inventories and force the economic conditions to show signs of adversity while it is not actually so. Both business and environment, thus, affect and are affected by each other.
2. When financial institutions increase the lending rates, firms may resort to other sources of funds, like bank loans or internal savings (reserves). This may force the financial institutions to lower the interest rates. The financial environment and the business system, thus, act and interact with each other.
3. The firm's micro environment consisting of workers, suppliers, shareholders etc. affects the business activities and is, affected by them. Workers demand high wages, suppliers demand high prices and shareholders demand high dividends.

1. Firms reconcile the interests of diverse groups and satisfy their demands. If management resolves these demands, it will be positively affected by the environmental forces but if it fails to satisfy these demands, it becomes a victim of the environment. Growing firms pay high wages and dividends to their workers and shareholders to maintain harmonious industrial relations and a positive business-environment interface.

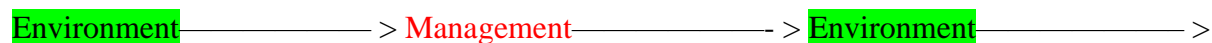
4. Business receives useful information from the environment regarding consumers' tastes and preferences, technological developments, Government policies, competitors' policies etc. and provides useful information to the environment regarding its goals, policies and financial returns. This information is transmitted to environment through annual reports as a requirement of disclosure practices.

5. The basic function of a business enterprise, input-output conversion, is carried through active interaction with the environment. It receives inputs from the environment, converts them into outputs through productive facilities which are also received from the environment and sends them back to the environment. A constant feedback is received from the environment to improve its performance.

6. The environment offers threats and opportunities to business systems which they overcome and exploit through their strengths and weaknesses. SWOT analysis helps in integrating external environment with the internal environment.

The business and environment, thus, have much to give and take from each other. The economy is structured by effective interaction of the business and its environment. The business-environment interaction is a continuous process. It is like a biological organism that keeps environment and management responsive to each other.

This interaction is shown as:



The continuous interaction of environment with business leads to new expectations of environment from business (in terms of social responsibilities and business ethics) and business from environment (in terms of regular supply of inputs at reasonable prices). This involves

changes in business and environmental policies and leads to new level of business-environment interface or business-environment equilibrium.

Interaction of business with environment can be shown as follows:

