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Paper-1

Business Environment and Entrepreneurship

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Updated as per
Companies Act, 2013

Features

- The whole content has been prepared in bullet form keeping in mind the MCQ pattern of study.
- In each chapter, the topic has been covered in a step by step approach.
- The text has been explained, where appropriate through illustrations and practical problems. Important Definitions, equations and formulae have been given before each topic for quick recapitulation.
- Solved illustrations have been given at relevant places in each chapter for better understanding of the concept.

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PART - A

Business Environment

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Business Environment

This Chapter Includes : Introduction and Features, Concepts of Vision & Mission Statements, Types of Environment, Internal to the Enterprise, Value System, Management Structure and Nature, Human Resource, Company Image and Brand Value, Physical Assets, Facilities, Research & Development, Intangibles, Competitive Advantage, External to the Enterprise, Micro- Suppliers, Customers, Market Intermediaries, Macro - Demography, Natural, Legal & Political, Technological, Economy, Competition, Socio-cultural and International, Business Environment with reference to Global Integration.

Introduction:

- ⇒ Environment is always changing.
- ⇒ According to Charles Darwin, "It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change".
- ⇒ Each business operates in a unique environment.
- ⇒ Environment influence businesses and in turn, businesses influences environment.

Meaning of Business Environment:

- ⇒ The term 'business is wide and is put to different usages.
- ⇒ 'Business' can referred as any activity consisting of purchase, sale, manufacture, processing and /or marketing of products and / or services.
- ⇒ Business is said to exist for profits.
- ⇒ However, besides earning profits, business survives for various other reasons in the society. They are -
 - (i) becoming an important institution of society
 - (ii) supplying goods and services
 - (iii) creating jobs for unemployed
 - (iv) offering better standard/quality of life
 - (v) contributing to the overall economic growth of the country.
- Both society and business cannot function without each other.
- ⇒ "Modern business is dynamic".
- ⇒ 'Environment' refers to the surroundings.
- ⇒ 'Business environment' is the sum of several external and internal forces that affects the functioning of business.
- ⇒ "Environment factors or constraints are largely if not totally, external and beyond the control of individual industrial enterprises and their managements."

- ⇒ There is close interaction between Business and its Environment.
- ⇒ Factors such as change in technology, factors etc., are to be considered by an organisation in order to survive in the changing business environment.
- ⇒ In order to be successful, business is required to not only recognise various elements of environment but also have to respect, adapt or manage and influence them.
- ⇒ Environment possess threat to the firm as well as offer immense opportunities for exploitation.

Features of Business Environment:

- ⇒ The following features of business environment helps a person to understand the environment within which his business has to function :-
 - (i) **Dynamic:** Business environment is always changing in nature. This is due to the various types of influences operating in the environment like needs of customers, fashion, technology, etc.
 - (ii) **Multi-faceted:** Any change occurring in the business environment are viewed differently by different persons. What form does this change takes depends upon the observer's perception. E.g. a same development may be taken as opportunity for some while it may be taken as threat for some others.
 - (iii) **Sum of external forces:** Business environment is an aggregate of various external factors.
 - (iv) **Uncertainty:** In today's world, environment is changing every moment. Thus, with such frequent changes it is difficult to predict the future happenings and non-happening.
 - (v) **Both specific and general forces:** Business environment consists of both specific and general forces. Specific forces refers to the forces that affects the individual enterprises like customers, suppliers etc. General forces refers to the forces that affects all the enterprises in an industry together like social, legal conditions etc.
 - (vi) **Relativity:** Business environment can be regarded as a relative concept as it changes from one region to another, from one country to another and even from one individual to another individual.
- ⇒ **Importance of Business Environment:** Adoption of the changes in the business environment and thereby, moving along with it, helps the business in various ways which are as follows :

- (i) **Threat Identification:** Identifying the threats operating in the environment beforehand helps the firms to take corrective and preventive measures. This is essential for the firms in order to survive competition. Eg. Microsoft keeps upgrading its product and launches new version of windows in order to be the market leader similar is the case with i-phone.
- (ii) **Performance Improvement:** By keeping a continuous check on the environment, the firms can adopt the business practices suitable for the present situation, thus improving its performance.
- (iii) **Meeting Competition:** Keeping track with the changing environment helps the firm to analyze its competitor's strengths, weaknesses and further strategies. Thus, the firm can form its own strategies accordingly. Eg. Nokia has launched its Lumia Series Phones in order to cope competition with Samsung Galaxy.
- (iv) **Advantage of first mover:** The firm can succeed its competitors only by exploiting the opportunities coming their way before their competitors.
- (v) **Able to cope with rapid changes:** All firms must understand the dynamic environment properly and must take suitable steps in order to cope up with these rapid changes taking place.
- (vi) **Continuous learning:** Business environment helps the managers to face the challenges as it requires them to update their skills and knowledge.
- (vii) **Building image:** Company's which are more sensitive to the changes in the environment are in better position than others. Thus, it helps the company to build its goodwill. Eg. Windows are frequently updated by Microsoft.

Vision Statement:

- ⇒ 'Vision Statement' is a road map of a company's future. It describes the desired future position of the company.
- ⇒ Vision Statement answers the following question:
 - (i) Who we are and where we are now ?
 - (ii) Where we are going ?

Some examples of Vision Statement :

- (i) **Disney:** to make people happy.
- (ii) **ICSI:** 'to be a global leader in promoting good corporate governance'.

Mission Statement:

- ⇒ 'Mission Statement' helps defining the company's business, its objectives and its approach to reach those objectives. It broadly describes an organisation's present capabilities, customer focus, activities, and business make up.

- ⇒ Mission Statement answers the following questions :
- (i) What does our company do?
 - (ii) Who do we do it for?
 - (iii) Where do we exist?
 - (iv) How does we do it?
 - (v) Why does our company do it?
- * The business vision and mission is paramount to the future growth and success of the business no matter the size of the organisation.
- * Internal factors include the vision and mission of the organization and other internal mechanism of the organization.

Some examples of mission statement:

- (i) **Reliance Industries:** 'To become major player in chemical business and grow in other growth oriented industries like infrastructure'.
- (ii) **ICSI:** To develop high caliber professionals facilitating good corporate governance.
- (iii) **Facebook:** 'To give people the power to share and make the world more open and connected'
- (iv) **Ranbaxy:** 'To become a \$1 billion research - based global pharmaceuticals'.

Uses of Vision And Mission Statement:

- ⇒ Vision and Mission Statement provides various uses to the organization:

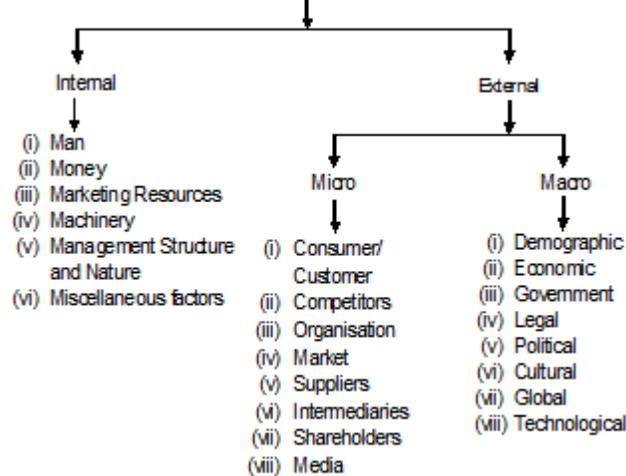
Internally

- (i) Helps in defining performance standards.
- (ii) Guides the employees in decision making.
- (iii) Guides the management while planning on strategic issues.
- (iv) Inspires the employees to work more productively.
- (v) Helps establishing a framework for ethical behaviour.

Externally

- (i) Helps in better communication with customers, suppliers and alliance partners.
- (ii) Provides external support.
- (iii) Serves as a public relations tool.

Types of Business Environment



⇒ **Internal Environment:** It consists of the factors that are within the control of business.

- (i) **Man i.e. Human Resources:** It is the strength and weakness of any organisation and must possess various characteristics like, skills, quality etc.
- (ii) **Money i.e. Financial Resources:** Various financial factors like the financial position, financial policies and its resources affects the business functioning.
- (iii) **Various Marketing Resources:** Factors like brand, equity, distribution network etc effects the marketing efficiency and performance of a company directly, thereby affecting the company's decision making.
- (iv) **Machinery i.e. Physical Assets:** Efficient working of any organisation is possible only on proper acquisition and working of assets. Money invested in such assets must provide enough returns and profits so as to satisfy the organisation. It also depends on the technical development and government policy.
- (v) **Management Structure:** It includes the internal structure of any organisation like the Board of Director's Composition etc. which directly affect the company's decision. It also affects the strategies undertaken by the company. The management structure must be in accordance with the business environment.

- (vi) **Miscellaneous factors:** It includes:
- (a) Company's brand image and goodwill
 - (b) Competitor's action it involves
 - ⇒ Identifying Competitor's
 - ⇒ Assessing their strengths, weakness etc.
 - ⇒ Selecting strategy to deal with them
 - (c) Research & Development
 - (d) Value System of Business

⇒ **External Environment:** It consists of the factors that are outside the company's boundaries, thus the company have no control over them. Company must adapt to such changes. External environment can be micro or macro.

Micro Environment:

- It is also known as task or operating environment.
- It is the immediate environment with which the organisation interacts for its day to day operations.
- These factors are more closely linked with the company than the macro factors.
- It affects a particular firm only.
- The micro environmental forces, though are external factors, still have a direct bearing on the operations of the firms.
- It deals with the following:
 - (i) **Consumers/Customers:** The main aim of every business is to create and retain customers. Customers pay for company's product. Thus, they must be provided quality goods at most reasonable prices.
 - (ii) **Competitors:** Before making any strategy, business must be aware of its competitor's actions to the environment changes. This will maintain and improve the company's position.
The name of the game in marketing a product is differentiation. Every firm has Unique Selling Point (USP)
 - (iii) **Employees:** It includes Board of Directors, owners and employees that are considered as the backbone of the organisation. They influence the day to day functioning of organisation and should be provided with proper training and development while considering the dividend policy of the company.
 - (iv) **Suppliers:** They provide raw material for the business's production activities. They have their own bargaining power which seriously affects the industry's cost structure.

- (v) **Shareholders:** They invest in company's capital thus are the owners of company. They affects the company's operations as they have a right to vote on all the decisions. Balance must be maintained between organisation's health and shareholder's interest.
- (vi) **Media:** It must be organised in such a way that it promotes the positive things of organisation while reduces the impact of negative things. It helps in building image and reputation.
Some organisation employ (PR) consultants to manage particular event or incident.

⇒ **Macro Environment:**

⇒ When the macro factors become uncontrollable the success of company depends upon its adaptability to the environment.

- It is also known as General or Remote environment.
- It is beyond the direct influence and control of organisation.
- These factors are more uncontrollable than micro factors.
- It covers the broader issues with which the organisation deals for long term working.
- It deals with the following: (STEEP)
 - (i) **Socio-Cultural and Demographics:** It consists of societal values, lifestyle and various characteristics of population. Those characteristics have to be identified which affects the further strategic competitiveness of the company.
 - (ii) **Technological:** This environment includes the methods, techniques and approaches adopted for production of goods and services and their distribution. Technology and business are highly inter related and inter-dependent. Technology influences the business operations and brings many opportunities for the business.
 - (iii) **Economic:** It represents the situation of the region and nation in which the firm operates. Business obtains all its inputs from the economic environment and all its outputs are also absorbed there. It includes the following factors :
 - (a) **Economic Conditions**
 - (1) Gross Domestic Product,
 - (2) Per Capital Income,
 - (3) Capital Availability,
 - (4) Foreign Exchange Reserves etc.

(b) Economic Policies

- (1) Industrial Policy,
- (2) Fiscal Policy,
- (3) Monetary Policy,
- (4) Foreign Investment Policy,
- (5) EXIM Policy, etc.

(c) Economic System

- (1) Capitalistic Economy,
- (2) Socialistic Economy,
- (3) Mixed Economy.

(iv) Ecology and Physical Environment: These factors are important for those units which carry on production and manufacturing activities. It includes weather, climatic conditions, availability of natural resources, location aspect etc.

(v) Political and Legal: Political environment means the political system, the government policies and their attitude towards the business community. Political groups put pressure on business for political gain by raising the sensitive issues relating to public.
Legal environment means the flexibility and adaptability of law and other legal rules governing the business. Every business has to work within the framework of law.

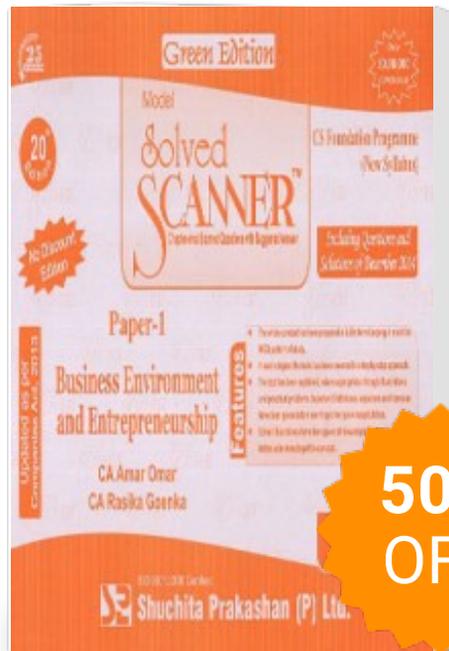
Global Integration:

- ⇒ Government has taken several steps to speed up the industrial growth and solve various economic problems.
- ⇒ Government efforts resulted in a mixed response.
- ⇒ Radical change in economic policies was brought in 1991.
- ⇒ Foreign Investment Promotion Board was set up to channelize the foreign capital investment in India.
- ⇒ It includes :
 - (1) Liberalisation
 - (2) Privatisation
 - (3) Globalisation
- ⇒ This resulted in increase in Per Capita Income, Net National Product, Infrastructure development, etc.

Features of Current Phase of Globalisation

- ⇒ Developing new financial markets
- ⇒ Growing Global Consumer Market with global brands.
- ⇒ Reducing anti-trust laws and proliferating mergers and acquisitions.

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