Unit-1
Business and Society

LEARNING OBJECTIVES

After going through this Unit, students should be able to:

- Discuss the changing economic, political, social, and cultural forces and their influences on business and society.
- Understanding the relationship between business and society and the ways in which business and society are part of an interactive system.
- Discuss the social, ethical, and legal environment surrounding small business management.
- Identify and discuss conflicting ideologies of the social and environmental responsibilities of business and how these affect business practices.
- Identify useful and successful practices for responding to the needs of society and the environment.
- Analyze the forces of change that continually reshape the business and society relationship.

STRUCTURE

1.1 INTRODUCTION

The basic objective of business is to develop, produce and supply goods and services to customers. This has to be done in such a way as to allow companies to make a profit, which in turn demands far more than just skills in companies' own fields and processes. Astute entrepreneurs often demonstrate an almost intuitive understanding of the synergies that create success. The social skills of company owners, together with relationships maintained with customers, suppliers and other business people, are always vital if companies are to be run well and developed with a view to the future. Companies improve their resources by developing materials and ideas. The goods and services produced must meet demands made by customers, other companies or public institutions if companies are to survive. Profitability results when customers are prepared to pay more for goods and services than it costs to produce them. The ability to produce this kind of added value – profit – is the basic prerequisite for business, but it is also a foundation for prosperity in society. Only profitable companies are sustainable in the long term and capable of creating goods, services, processes, return on capital, work opportunities and a tax base. This is what business does better than any other sector. Hence, companies' basic commercial operations are the primary benefit they bring to society.

Companies benefit society by:

- Supplying goods and services that customer cannot, or do not want to, produce themselves
- Creating jobs for customers, suppliers, distributors and coworkers. These people make money to support themselves and their families, pay taxes and use their wages to buy goods and services
- Continually developing new goods, services and processes
- Investing in new technologies and in the skills of employees
- Building up and spreading international standards, e.g. for environmental practices
- Spreading "good practice" in different areas, such as the environment and workplace safety

The role of business in the development of society can be described in many ways. For a company to progress and develop, it must nurture relations with its stakeholders, of which there may be many. Some have a strong influence and are of fundamental importance to the survival of the company: these include employees, customers and suppliers. The media, authorities, trade unions and local residents are other stakeholders with a wide-ranging influence.

The role of business in society and the accompanying responsibilities that transpire from that role is a highly contentious and debated topic. The economist Milton Friedman famously contended that the "business of business is business" and thus it has only one responsibility and that is to generate profit for shareholders (while adhering to the law). Contrary to that argument is thinking that recognizes business as a system in society that is affected by and affects other systems in society (such as the surrounding community, government bodies, other types of organizations, the natural environment, etc.). Thus business needs to work with these systems to attain its economic goals in a way that will also benefit the system (society) as a whole.

Good relations lead to profitability

The long-term survival of companies is partly dependent on maintaining relationships of trust. Deterioration of such relationships will jeopardize the ongoing development of the company. Experience shows that companies with an international outlook, which are open and adopt the long-term approach, are often best at maintaining relationships and hence at developing their operations. The ability to constantly go on improving products and processes is a basic prerequisite. Companies that want to keep developing have to be receptive to signals from and opinions expressed by the market, staff and the general public. Now that more and more customers – and stakeholders as well – are making demands of companies' ethical, social and environmental awareness, it is also natural for companies to be receptive to these issues and actively use them in their operations. Society's values and current levels of knowledge are reflected in companies' activities, and companies are judged according to current standards. Companies have always had to interpret society's moods or else go out of business. Companies have always had to adapt to fit in with values and norms.

Then on top of these are the formal regulations that all companies, be they private and public, have to observe. It is very much in the interests of any company to be 'a good corporate citizen'. Companies that have a clear identity and clear business concepts often find it easier to handle and integrate ethical and social values and to take the environment into account. Having clear business objectives makes it easier to formulate and implement goals based on values and norms both within the company and among the general public.

Business in society has evolved to include the description, analysis and evaluation of business' complex societal and ecological relations. These relations and impacts, and the management thereof are popularly referred to as the field of corporate citizenship (also known as corporate social responsibility, sustainability or a number of variations on these).

For business the changing social contract implies purposeful involvement with stakeholders to achieve improved economic, environmental and social performance. The nature and extent of this involvement, however, varies depending on company size, industry or business scope. The most evident difference is the utilization of reactive/defensive means vs. proactive/offensive strategies. Consequently, corporate citizenship management, practice and behavior differ. The emergence of new stakeholder engagement strategies, including strategic alliances and partnerships, social partnerships and multi-sector collaborations, means that collaborative strategies (as opposed to purely competitive strategies) have become a critical means for the private sector to proactively engage society.

Over the past several decades, one of the great discussions within capitalism has centered on defining exactly what a business is and what its obligations are to society at large and to the many stakeholders participating in business systems, including customers, shareholders, employees, suppliers, and communities, to name a few.

When it comes to serving society, a company's first task is to ensure that its core business is fundamentally value creating—not just for shareholders but also for customers, employees, suppliers, communities, and the environment.The obligations to society have been defined in different ways at different points. For many retailers, including Walmart founder Sam Walton, the focus has been first and foremost on serving the customer.

Considering what is happening in the Indian business scenario, one can conclude that enterprises have indeed shifted to the right of the continuum and are even going beyond.

Businesses have made huge profits and by one estimate, 60 per cent of India's 200 leading companies are looking to spend their new found wealth on foreign acquisitions and investments.

1.2 UNDERSTANDING BUSINESS

A business is an organization or enterprising entity engaged in commercial, industrial or professional activities. A company transacts business activities through the production of a good, offering of a service or retailing of already manufactured products. A business can be a for-profit entity or a nonprofit organization that operates to fulfill a charitable mission.

A business most often forms after the development of a business plan. This plan outlines the strategic intentions and logistics in making those intentions occur. A business name must be registered with the state, and this name is often referred to as the "doing business as" or DBA name. A business can operate with its own tax identification number and tax liabilities, so one of the pivotal steps in forming a business is determining the legal structure of the business and associated taxation implications. Different businesses require various permits and licenses to operate legally. Finally, a business has legal obligations in regard to treatment of employees and the conditions in which the employees work. These legal obligations of a business include properly assessing payroll taxes on employees as well as the business itself.

The most basic business structure is a sole proprietorship. The owner of the business is the sole individual who takes ownership of assets and debt obligations.

Alternatively, multiple individuals with shared duties can operate a business, and this business structure is a partnership. A business may operate as a corporation. Incorporating a business releases owners of financial liability of business obligations; however, a corporation has unfavorable taxation rules for the owners of the business. For this reason, a fourth business structure, called a limited liability company, is available, which combines the benefits of a partnership and corporation.

Businesses include everything from a small owner-operated company, such as a family restaurant, to a multinational conglomerate, such as General Electric. Larger businesses may issue corporate stock to finance operations. In this case, the company is publicly traded and has reporting and operating restrictions. Alternatively, smaller businesses may operate more independently of regulators.

A company may describe its business by communicating the industry in which it operates. For example, the real estate business, advertising business or mattress production business are industries in which a business can exist. Because the term "business" can be interchanged with day-to-day operations as well as the overall formation of a company, the term is often used to indicate transactions regarding an underlying product or service. For example, Indian Oil transacts business in providing oil and petroleum products.

Business may be understood as the organized efforts of enterprises to supply consumers with goods and services for a profit.Businesses vary in size, as measured by the number of employees or by sales volume. Large organizations such as Steel Authority of India Limited (SAIL) and Tata Steel count their employees in the hundred thousands and their sales revenues in thousands of crores. But most business units in our country are small units – independently owned and managed and employing fewer than twenty employees each. Whether a business unit has one or two people working at home, 10 operating in a retail store, 1000 employed in a factory, or 100, 000 operating in multiple units spread across the country, all businesses share the same purpose – *to earn profits*.

The role of business in an open market economy system is to create wealth for shareholders, employees, customers and society at large. No other human activity matches private enterprise in its ability to marshal people, capital and innovation under controlled risk-taking, in order to create meaningful jobs and produce goods and services profitably – profit being essential to long-term business survival and job creation.

While all businesses have an implicit set of inherent values, the number of businesses that have formally written values and principles is rapidly increasing. These principles have become more and more explicit and provide the framework for corporate behaviour beyond their legal obligations. At the same time, growing numbers of companies have been adding environmental and social indicators to their economic and financial results in reports that are often entitled social reports or sustainability reports. Indeed, sustained profits and principles are mutually supportive and an increasing number of companies view corporate responsibility as integral to their systems of governance. This is part of the requirements for doing business in today's global economy.

In recent years there has also been substantial growth in the number of principles, guidelines or codes produced for business by governmental and non-governmental organizations. Companies face multiple, and sometimes conflicting, demands to endorse these initiatives. This has led more companies to consider how they should approach corporate responsibility issues and, more specifically, whether they should develop their own business principles and which external codes they should use as reference points.

Running a business requires a lot of knowledge and hard work. There are ongoing activities, business operations, involved in the production of value for all the stakeholders. The intended outcome of these business operations is to harvest the value from the assets owned by the business. These assets can be intangible or physical but the effort it takes to harvest is what constitutes the cycle of business operations. Once a business owner learns how to increase company value as well as generate and stabilize income, their business will continue to increase in success.

Once invested in a business, the return consists of any rent, dividend, interest, or other types of income added which increase in value over a certain period of time. The return is the excess received back. This is known as business return. There are different types of margin in business and finance. In simple terms it is the distance between financial points with the higher point typically being better. Profit margin is the most common type of margin and the goal of all businesses is to make money. The business has direct and indirect costs which help bring in that revenue. When the revenue surpasses the costs, the business is making profit and all businesses need to make a profit. With revenue going out and just enough coming in, it puts the business on the line of failing. There are small things that can reap big benefits though. These changes include using less energy, operating performance, increasing prices, and increasing margins.

Key Business Skills

Running a small business often requires that you become a jack-of-all-trades. It is therefore important to know early on the skills that you have and those that you will either have to learn or delegate to others. The key business skills to consider include:

- **Strategic Management:** Creating a business and strategic plan for your business and making sure you keep to it.
- **Basic Accounting:** Which records to keep, how to keep them and how to file them.
- **Financial Management:** Where to find financing and how to manage it once you've sourced it.
- **People Management:** Hiring your first employee and how to manage them.
- **Marketing.** How to market your business through traditional channels, web and social media.
- **Sales:** How to complete a sale and look after your customers.
- **Operations Management:** Choosing and managing your suppliers.

When considering the skills that you lack there are three avenues you can take: you can hire employees who are strong in those specific areas, you can engage professional business advisors, or you can take the time to learn these key skills yourself.

Every business conforms to the three basic parts of moneymaking – cash generation, return on assets (combination of margin and velocity), and growth. Whether running an online or traditional business, a business owner must understand these parts individually and the relationship between them. These three basic parts, plus customers, form the nucleus of any business.

1. Cash

Cash generation is the difference between all the cash that flows in the business and the cash that flows out. Cash is the lifeblood of any business, or the company's oxygen supply. An astute entrepreneur must always ask the questions: Does the business generate enough cash? What are the sources of cash generation? How is the cash being used? Failing to ask these questions often spell the end of the business. Without cash, a business can be in trouble even if other aspects of moneymaking – profit margin and asset velocity – look good.

If the business generates sufficient cash, the entrepreneur is in a better position to grow the business. An entrepreneur can make better investing decisions, not to mention be more in control, if it has its own cash rather than borrowing money from investors.

2. Return on assets (combination of margin and velocity)

An entrepreneur uses either his own money or someone else's money to invest in the business. The things invested – be it products, store or web site – are the business assets.

An entrepreneur possessing acute business acumen will ask the questions: How much money will be made with these assets? What kind of money is being returned through their use? In short, a smart entrepreneur must always ask, "What is the return on assets?" An entrepreneur must follow the rule: the return on assets has to be greater than the cost of using their own money and other people's.

Earning a good return on assets has two components – profit margin and velocity. Return on assets is simply nothing more than profit margin multiplied by velocity. In simple arithmetic, return on asset is*Return = Margin x Velocity*

Even if profit margin is small, a business can thrive if it has a fast turnover of its inventory. A faster velocity leads to a higher return. The faster the inventory reaches the customer, the better it is for the business. Generally, the best companies have a return on assets greater than 10 percent after tax.

3. Growth

Growth is vital to every business. It energizes the business and creates new opportunities. However, growth for growth's sake does not do any good. The growth of a business must be accompanied by improved margin and velocity, and the cash generation must be able to keep pace. A smart entrepreneur does not only push for sales. Instead, he or she must know how and why the business is growing; and whether the growth can be sustained. Sales may be growing, but if the cash situation is getting worse the entrepreneur must take the prudent approach and step back. When growing a business, the businessperson must determine if the company is generating or consuming cash, and whether profit margin is improving or getting worse.Another characteristic of a person possessing business acumen is his or her ability to find opportunities for profitable growth when others can't.

4. Customers

A universal law of business is that no business can thrive without customers. Hence, a smart entrepreneur instinctively understands his or her customers.Entrepreneurs with business acumen have a close connection with their customers and possess strong conviction that the business cannot thrive without satisfying them.

Entrepreneurs must always know the pulse of their customers. A savvy entrepreneur knows that the best way to get to know the customer is to make the special effort to observe and talk directly to people who use their products and services. Find out what the customers need – directly from them. Direct contact provides insight that even expensive market research cannot.

A business owner must clearly know what the customer is buying. It may not be the physical product or service alone, but intangible qualities such as reliability, convenience or trustworthiness.The secret of the great CEOs of our time is their "intense focus on the fundamentals of business." The best CEOs have a knack for bringing the most complex business down to the fundamentals — the same fundamentals that govern a small family shoe shop or an online store. Like these CEOs, entrepreneurs should never lose sight of the basics if they want to succeed.

1.3 UNDERSTANDING SOCIETY

A society is a group of people involved in persistent social interaction, or a large social grouping sharing the same geographical or social territory, typically subject to the same political authority and dominant cultural expectations. Societies are characterized by patterns of relationships (social relations) between individuals who share a distinctive culture and institutions; a given society may be described as the sum total of such relationships among its constituent members. In the social sciences, a larger society often evincesstratification or dominance patterns in subgroups.

Insofar as it is collaborative, a society can enable its members to benefit in ways that would not otherwise be possible on an individual basis; both individual and social (common) benefits can thus be distinguished, or in many cases found to overlap. A society can also consist of like-minded people governed by their own norms and values within a dominant, larger society. This is sometimes referred to as a subculture, a term used extensively within criminology.

More broadly, and especially within structuralist thought, a society may be illustrated as an economic, social, industrial or culturalinfrastructure, made up of, yet distinct from, a varied collection of individuals. In this regard society can mean the objective relationships people have with the material world and with other people, rather than "other people" beyond the individual and their familiar social environment.

Societies may also be structured politically. In order of increasing size and complexity, there are bands, tribes, chiefdoms, and state societies. These structures may have varying degrees of political power, depending on the cultural, geographical, and historical environments that these societies must contend with. Thus, a more isolated society with the same level of technology and culture as other societies is more likely to survive than one in closer proximity to others that may encroach on their resources. A society that is unable to offer an effective response to other societies it competes with will usually be subsumed into the culture of the competing society.

Sociologist Peter L. Berger defines society as "...a human product, and nothing but a human product, that yet continuously acts upon its producers." According to him, society was created by humans but this creation turns back and creates or molds humans every day.

Sociologist Gerhard Lenski differentiates societies based on their level of technology, communication, and economy: (1) hunters and gatherers, (2) simple agricultural, (3) advanced agricultural, (4) industrial, and (5) special (e.g. fishing societies or maritime societies).This is similar to the system earlier developed by anthropologists Morton H. Fried, a conflict theorist, and Elman Service, an integration theorist, who have produced a system of classification for societies in all human cultures based on the evolution of social inequality and the role of the state. This system of classification contains four categories:

- Hunter-gatherer bands (categorization of duties and responsibilities).
- Tribal societies in which there are some limited instances of social rank and prestige.
- Stratified structures led by chieftains.
- Civilizations, with complex social hierarchies and organized, institutional governments.

In addition to this there are:

- Humanity, mankind, upon which rest all the elements of society, including society's beliefs.
- Virtual society, a society based on online identity, which is evolving in the information age.

Over time, some cultures have progressed toward more complex forms of organization and control. This cultural evolution has a profound effect on patterns of community. Hunter-gatherer tribes settled around seasonal food stocks to become agrarian villages. Villages grew to become towns and cities. Cities turned into city-states and nation-states.

Many societies distribute largess at the behest of some individual or some larger group of people. This type of generosity can be seen in all known cultures; typically, prestige accrues to the generous individual or group. Conversely, members of a society may also shun orscapegoat members of the society who violate its norms. Mechanisms such as gift-giving, joking relationships and scapegoating, which may be seen in various types of human groupings, tend to be institutionalized within a society. Social evolution as a phenomenon carries with it certain elements that could be detrimental to the population it serves.

Some societies bestow status on an individual or group of people when that individual or group performs an admired or desired action. This type of recognition is bestowed in the form of a name, title, manner of dress, or monetary reward. In many societies, adult male or female status is subject to a ritual or process of this type. Altruistic action in the interests of the larger group is seen in virtually all societies. The phenomena of community action, shunning, scapegoating, generosity, shared risk, and reward are common to many forms of society.

Types

Societies are social groups that differ according to subsistence strategies, the ways that humans use technology to provide needs for themselves. Although humans have established many types of societies throughout history, anthropologists tend to classify different societies according to the degree to which different groups within a society have unequal access to advantages such as resources, prestige, or power. Virtually all societies have developed some degree of inequality among their people through the process of social stratification, the division of members of a society into levels with unequal wealth, prestige, or power. Sociologists place societies in three broad categories: pre-industrial,industrial, and post-industrial.

Pre-industrial:In a pre-industrial society, food production, which is carried out through the use of human and animal labour, is the main economic activity. These societies can be subdivided according to their level of technology and their method of producing food. These subdivisions are hunting and gathering, pastoral, horticultural, agricultural, and feudal.

Industrial: Between the 15th and 16th centuries, a new economic system emerged that began to replace feudalism. Capitalism is marked by open competition in a free market, in which the means of production are privately owned. Europe's exploration of the Americas served as one impetus for the development of capitalism. The introduction of foreign metals, silks, and spices stimulated great commercial activity in European societies.

Industrial societies rely heavily on machines powered by fuels for the production of goods. This produced further dramatic increases in efficiency. The increased efficiency of production of the industrial revolution produced an even greater surplus than before. Now the surplus was not just agricultural goods, but also manufactured goods. This larger surplus caused all of the changes discussed earlier in the domestication revolution to become even more pronounced.

Once again, the population boomed. Increased productivity made more goods available to everyone. However, inequality became even greater than before. The breakup of agricultural-based feudal societies caused many people to leave the land and seek employment in cities. This created a great surplus of labour and gave capitalists plenty of labourers who could be hired for extremely low wages.

Post-industrial:Post-industrial societies are societies dominated by information, services, and high technology more than the production of goods. Advanced industrial societies are now seeing a shift toward an increase in service sectors over manufacturing and production. The United States is the first country to have over half of its work force employed in service industries. Service industries include government, research, education, health, sales, law, and banking.

Characteristics

Some of the important characteristics of society are as follows:

A comprehensive understanding of society requires a thorough analysis of its characteristics. But the term society could be understood both from a narrower and broader sense. In a narrower sense society refers to a group of people but in a broader sense it refers to the whole human society. However, society has the following characteristics:

A society must have population. Without a group of people no society could be formed. Of course society refers not to a group of people but to a system of social relationships. But for the establishment of social relationships a group of people is necessary.This population is a self-perpetuating individual who reproduces itself through some sort of mating relationship. Hence it is the first requirement of society.

(1) Likeness:

Likeness is the most important characteristic of society. Famous sociologist Maclver opines that society means likeness. Without a sense of likeness, there could be no mutual recognition of' belonging together' and therefore no society. This sense of likeness was found in early society on kinship and in modern societies the conditions of social likeness have broadened out into the principles of nationality.

Society consists of like bodied and likeminded individuals. Friendship intimacy and association of any kind would be impossible without likeness. It also helps in the understanding of one by the other.

(2) Differences:

Along with likeness, differences are another important characteristic of society. Because society involves differences and it depends on it as much as on likeness. That is why Maclver opines that "primary likeness and secondary differences create the greatest of all institutions-the division of labour". Because differences is complementary to social relationship. If people will be alike in all respect society could not be formed and there would be little reciprocity and relationship became limited. Family as the first society based on biological differences and differences in aptitude, interest and capacity. Though differences is necessary for society but differences by itself does not create society. Hence differences are sub-ordinate to likeness.

(3) Inter-dependence:

Interdependence is another important characteristic of society. This fact of interdependence is visible in every aspect of present day society. Famous Greek Philosopher, Aristotle remarked that 'Man is a social animal'. As a social animal he is dependent on others. The survival and well-being of each member is very much depended on this interdependence. No individual is self-sufficient.

He has to depend on others for food, shelter and security and for the fulfillment of many of his needs and necessities. With the advancement of society this degree of interdependence increases manifold. Family being the first society is based on the biological interdependence of the sexes. Not only individuals are interdependent but also the groups, communities and societies.

(4) Co-operation and Conflict:

Both co-operation and conflict are two another important characteristics of society. Because famous sociologist Maclver once remarked that "Society is Co-operation crossed by conflict". Co-operation is essentially essential for the formation of society. Without co-operation there can be no society. People can't maintain a happy life without co-operation. Family being the first society rests on co-operation. Co-operation avoids mutual destructiveness and results in economy in expenditure.

Like co-operation conflict is also necessary for society. Conflict acts as a cementingfactor for strengthening social relations. In a healthy and well developed society both co-operation and conflict co-exist. Because with the help of these two universal processes society is formed. Conflict makes co-operation meaningful. Conflict may be direct and indirect. However both are necessary for society.

(5) Society is a network or web of social relationship:

Social relationships are the foundation of society. That is why famous sociologist Maclver remarked that society is a network of social relationship. Hence it is difficult to classify social relationships. But this social relationship is based on mutual awareness or recognition to which Cooley call we-feeling, Giddings call consciousness of kind and Thomas as common propensity. Without these social relationships no society could be formed.

As social relationships are abstract in nature so also the society is abstract in nature. Different kinds of social processes like co-operation, conflict constantly takes place in society. And the relationships established around these create society. Hence a network of social relationships which created among individuals constitutes society.

(6) Permanent Nature:

Permanency is another important characteristic of society. It is not a temporary organization of individuals. Society continues to exist even after the death of individual members. Society is a coherent organization.

(7) Society is Abstract:

Society is an abstract concept. As Maclver opines society is a web of social relationships. We can't see this relationship but we can feel it. Hence it is an abstract concept. Wright has rightly remarked that "society in essence means a state or condition, a relationship and is, therefore, necessarily an abstraction". Besides society consists of customs, traditions, folkways, mores and culture which are also abstract. Hence society is abstract in nature.

(8) Society is Dynamic:

The very nature of society is dynamic and changeable. No society is static. Every society changes and changes continuously. Old customs, traditions, folkways, mores, values and institutions got changed and new customs and values takes place. Society changes from its traditional nature to modern nature. Hence it is one of the most important characteristic of society.

(10) Comprehensive Culture:
Culture is another important characteristic of society. Each and every society has its own culture which distinguishes it from others. Culture is the way of life of the members of a society and includes their values, beliefs, art, morals etc. Hence culture is comprehensive because it fulfills the necessities of social life and is culturally self-sufficient. Besides, each and every society transmits its cultural pattern to the succeeding generations.

(11) Something more than mere collection of individuals:
No doubt society consists of individuals. But mere collection of individuals is not society. It is something more than that and something beyond the individual. Durkheim is right when he remarked that society is more than the sum of its parts i.e. individuals.

(12) Accommodation and Assimilation:
This two associative social process is also important for the smooth functioning and continuity of society. Hence it is also another characteristic of society.

1.4 NEED TO STUDY BUSINESS AND SOCIETY

Business today is arguably the most dominant institution in the world. The term business refers here to any organization that is engaged in making a product or providing a service for a profit.Society, in its broadest sense, refers to human beings and to the social structures they collectively create. In a more specific sense, the term is used to refer to segments of humankind, such as members of a particular community, nation, or interest group. As a set of organizations created by humans, business is clearly a part of society. At the same time, it is also a distinct entity, separated from the rest of society by clear boundaries. Business is engaged in ongoing exchanges with its external environment across these dividing lines.

In the eyes of business owners during the 19th century and the first half of the 20th, their role was to produce goods and services and make as much money as possible for themselves and shareholders. The public's duty was to buy the goods and services. It was not until the 1960s that the traditional roles changed and "stakeholders," i.e., anyone who has a vested interest in any action a company takes, began to play an important role in the relationship between business and society. Today, that relationship continues to evolve toward a symbiotic partnership between business, government, and the broader society.

Most business leaders now take it for granted that companies have obligations to communities and private-sector interests beyond simply providing jobs and delivering goods or services. Laws regarding environmental and social issues, for the most part, are placing heightened demands on corporations to honor widely held social values, such as enforcing fairness in the workplace and controlling the degradation of natural resources. Moreover, at the dawn of the 21st century many in society expect businesses not only to comply with such regulations, but also to exceed the letter of the law, uphold high standards of ethics in all dealings, and invest a portion of their profits in socially constructive ventures or philanthropy—behaviours that some have termed "corporate citizenship."

Identifying the role and responsibilities of business in society has been the quest and concern of many scholars for decades. In recent years the relationship between business and society had witnessed a massive transformation from the traditional classical view of business as profit maximizing economic agents to a more ethical outlook that analyzes the greater impact of business on society. A number of factors havecontributedin shaping the new relation between business and society. Globalization imposed tremendous pressure on businesses worldwide to enhance their global image. Rising power of consumers forced businesses to become more conscious of the destructive effect of their actions, adding to that the growing trend of ethical consumerism which imposes both an opportunity and a threat to businesses worldwide.

Business Ethics and Corporate Social Responsibility

Many notions such as Business Ethics, Corporate Philanthropy and Corporate Social Responsibility, are sometimes used interchangeably to describe the relation between business and society, although each has a different aim. Business ethics are the principles and standards that guide acceptable behavior in business organizations, whereas the extent of acceptability of business behaviour is determined by a variety of entities including customers, competitors, government regulators, interest groups, and the public, thus it relates to society's evaluation of an action as right or wrong. Common business problems such as defective products, bribery, and accounting fraud exist due to the lack of or decline in business ethics. Although the judgment on business actions is based on each individual’s moral principles and values this ethical perception of business stresses on the fact that there has been a radical change in society's view of businesses.

Although the terms corporate social responsibility and business ethics are used interchangeably, they have different meanings; whereas corporate social responsibility (CSR) tries to analyze the extended socio-economic role of business in society. CSR is a broader concept in a sense that it is concerned-from a stakeholder perspective–with the impact of business’s activities on society. Thus, CSR is a stakeholder oriented notion that focuses primarily on voluntary commitments of an organization regarding both its internal and external issues, which are determined by the business’s understanding and acknowledgement of its moral responsibilities concerning the impact of its activities on society.

The Dynamic Environment of Business

The external environment of business is dynamic and ever changing. Businesses and their stakeholders do not interact in a vacuum. On the contrary, most companies operate in a swirl of social, ethical, global, political, ecological, and technological change that produces both opportunities and threats.These six dynamic forces powerfully shape the business and society relationship.

- Changing societal expectations. Everywhere around the world, society’s expectations of business are changing. People increasingly expect business to be more responsible, believing companies should pay close attention to social issues and act as good citizens in society. New public issues constantly arise that require action. Increasingly, business is faced with the daunting task of balancing its social, legal, and economic obligations, seeking to meet its commitments to multiple stakeholders. Modern businesses are increasingly exploring opportunities to act as social entrepreneurs often by focusing on those at the bottom of the pyramid.

- Growing emphasis on ethical reasoning and actions. The public also expects business to be ethical and wants corporate managers to apply ethical principles or values—in other words, guidelines about what is right and wrong, fair and unfair, and morally correct—when they make business decisions. Fair employment practices, concern for consumer safety, contribution to the welfare of the community, and human rights protection around the world have become more prominent and important. Business has created ethics programs to help ensure that employees are aware of these issues and act in accordance with ethical standards.
- Globalization. We live in an increasingly integrated world economy, characterized by the unceasing movement of goods, services, and capital across national borders. Large transnational corporations do business in scores of countries. Products and services people buy every day in the United States or Germany may have come from Indonesia, Haiti, or Mexico. Today, economic forces truly play out on a global stage. A financial crisis on Wall Street can quickly impact economies around the world. Societal issues—such as the race to find a cure for HIV/AIDS, the movement for women's equality, or the demands of citizens everywhere for full access to the Internet—also cut across national boundaries. Environmental issues, such as ozone depletion and species extinction, affect all communities. Globalization challenges business to integrate their financial, social, and environmental performance.
- Evolving government regulations and business response. The role of government has changed dramatically in many nations in recent decades. Governments around the world have enacted a myriad of new policies that have profoundly constrained how business is allowed to operate. Government regulation of business periodically becomes tighter, then looser, much as a pendulum swings back and forth. Because of the dynamic nature of this force, business has developed various strategies to influence elected officials and government regulators at federal, state, and local levels. Business managers understand the opportunities that may arise from active participation in the political process.

- Dynamic natural environment. All interactions between business and society occur within a finite natural ecosystem. Humans share a single planet, and many of our resources—oil, coal, and gas, for example—are nonrenewable. Once used, they are gone forever. Other resources, like clean water, timber, and fish, are renewable, but only if humans use them sustainably, not taking more than can be naturally replenished. Climate change now threatens all nations. The relentless demands of human society, in many arenas, have already exceeded the carrying capacity of the Earth's ecosystem. The state of the Earth's resources and changing attitudes about the natural environment powerfully impact the business–society relationship.
- Explosion of new technology and innovation. Technology is one of the most dramatic and powerful forces affecting business and society. New technological innovations harness the human imagination to create new machines, processes, and software that address the needs, problems, and concerns of modern society. In recent years, the pace of technological change has increased enormously. From genetically modified foods to social networking via the Internet, from nanotechnology to wireless communications, change keeps coming. The extent and pace of technological innovation pose massive challenges for business, and sometimes government, as they seek to manage various privacy, security, and intellectual property issues embedded in this dynamic force.

Impact of global economic growth on societies around the world

One of the key drivers of globalization is international economic development. It is a highly dynamic process. Through millions of daily decisions that we, as business leaders are making, business, trade and commerce are driving global economic integration. Countries and their populations – as consumers, employees, investors and citizens – are being brought into rapid participation in global economic activity and growth. The scale of these trends is massive. To take one example, at a global, macro-economic level, it is estimated that more than one billion people have been able to afford to buy a manufactured product for the first time over the past ten years or so.

What are societies' expectations?

Perceptions of what companies are contributing to societies vary around the world. A survey reported in *Financial Times* in June 2005 found that "to Chinese consumers, the hallmark of a socially responsible company is safe, high quality products. For Germans, it is secure employment. In South Africa what mattered most is a company's contribution to social needs such as healthcare and education".

1.5 SOCIAL RESPONSIBILITY OF BUSINESS

Social responsibility is the idea that businesses should balance profit-making activities with activities that benefit society; it involves developing businesses with a positive relationship to the society in which they operate. The International Organization for Standardization (ISO) emphasizes that the relationship to the society and environment in which businesses operate is "a critical factor in their ability to continue to operate effectively. It is also increasingly being used as a measure of their overall performance."

The social responsibility of business means various obligations or responsibilities or duties that a business-organization has towards the society within which it exists and operates from.Generally, the social responsibility of business comprises of certain duties towards entities, which are depicted and listed below.

Figure No. 1 Social Responsibility of Business Towards Society.

1. Shareholders or investors who contribute funds for business.
2. Employees and others that make up its personnel.
3. Consumers or customers who consume and/or use its outputs (products and/or services).
4. Government and local administrative bodies that regulate its commercial activities in their jurisdictions.
5. Members of a local community who are either directly or indirectly influenced by its activities in their area.
6. Surrounding environment of a location from it operates.
7. The general public that makes up a big part of society.

The social responsibility of business comprises of the following obligations:

1. A business must give a proper dividend to its shareholders or investors.
2. It must provide fair wages and salaries with good working conditions.
3. It must provide a regular supply of good quality goods and/or services to its consumers/customers at reasonable prices.
4. It must abide by all government rules and regulations, supports its business-related policies and should pay fair taxes without keeping any delays or dues.
5. It must also contribute in betterment of a local community by doing generous activities like building schools, colleges, hospitals, etc.
6. It must take immense care to see that its activities neither directly nor indirectly create havoc on the vitality of its surrounding environment.
7. It should maintain a stringent policy to curb or control pollution in regard to contamination of air, water, land, sound and radiation leakages. Here, to do so, it must hire experienced professional individuals who are experts in their respective fields.
8. It should also offer social-welfare services to the general public.

The core objectives of social responsibility of business are as follows:

1. It is a concept that implies a business must operate (function) with a firm mindset to protect and promote the interest and welfare of society.

2. Profit (earned through any means) must not be its only highest objective else contributions made for betterment and progress of a society must also be given a prime importance.
3. It must honestly fulfill its social responsibilities in regard to the welfare of society in which it operates and whose resources & infrastructures it makes use of to earn huge profits.
4. It should never neglect (avoid) its responsibilities towards society in which it flourishes.

Now let's discuss how the survival, growth and success of business are linked and dependent on sincere execution of its social responsibilities.

1. Shareholders or investors

Social responsibility of business towards its shareholders or investors is most important of all other obligations.

If a business satisfies its funders, they are likely to invest more money in a project. As a result, more funds will flow in and the same can be utilized to modernize, expand and diversify the existing activities on a larger scale. Happy financiers can fulfill the rising demand of funds needed for its growth and expansion.

2. Personnel

Social responsibility of business towards its personnel is important because they are the wheels of an organization. Without their support, the commercial institution simply can't function or operate.

If a business takes care of the needs of its human resource (for e.g. of office staff, employees, workers, etc.) wisely, it will boost the motivation and working spirit within an organization. A happy employee usually gives his best to the organization in terms of quality labor and timely output than an unsatisfied one. A pleasant working environment helps in improving the efficiency and productivity of working people. A good remuneration policy attracts new talented professionals who can further contribute in its growth and expansion.

Thus, if personnel are satisfied, then they will work together very hard and aid in increasing the production, sales and profit.

3. Consumers or customers

Social responsibility of business towards its consumers or customers matters a lot from sales and profit point of view. Its success is directly dependents on their level of satisfaction. Higher their rate of satisfaction greater is the chances to succeed.

If a business rolls out good-quality products and/or delivers better quality services that too at reasonable prices, then it is natural to attract lots of customers. If the quality-price ratio is maintained well and consumers get worth for their money spend, this will surely satisfy them. In a long run, customer loyalty and retention will grow, and this will ultimately lead to profitability.

4. Government

Social responsibility of business towards government's regulatory bodies or agencies is quite sensitive from the license's point of view. If permission is not granted or revoked abruptly, it can result in huge losses to an organization. Therefore, compliance in this regard is necessary.

Furthermore, a business must also function within the demarcation of rules and policies as formulated from time to time by the government of state or nation. It should respect laws and abide by all established regulations while performing within the jurisdiction of state.

Some examples of activities a business can do in this regard:

- Licensing an organization,
- Seeking permissions wherever necessary,
- Paying fair taxes on time,
- Following labor, environmental and other laws, etc.

If laws are respected and followed, it creates goodwill of business in eyes of authorities. Overall, if a government is satisfied it will make favorable commercial policies, which will ultimately open new opportunities and finally benefit the organization sooner or later.

Therefore, satisfaction of government and local administrative bodies is equally important for legal continuation of business.

5. Local community

Social responsibility of business towards the local community of its established area is significant. This is essential for smooth functioning of its activities without any agitations or hindrances.

A business has a responsibility towards the local community besides which it is established and operates from. Industrial activities carried out in a local-area affect the lives of many people who reside in and around it. So, as a compensation for their hardship, an organization must do something or other to alleviate the intensity of suffering.

As a service to the local community, a business can build:

- A trust-run hospital or health center for local patients,
- A primary and secondary school for local children,
- A diploma and degree college for local students,
- An employment center for recruiting skilled local people, etc.

Such activities to some-extend may satisfy the people that make local community and hence their changes of agitations against an establishment are greatly reduced. This will ensure the longevity of a business in a long run.

6. Environment

Social responsibility of business with respect to its surrounding environment can't be sidelined at any cost. It must show a keen interest to safeguard and not harm the vitality of the nature.

A business must take enough care to check that its activities don't create a negative impact on the environment. For example, dumping of industrial wastes without proper treatment must be strictly avoided. Guidelines as stipulated in the environmental laws must be sincerely followed. Lives of all living beings are impacted either positively or negatively depending on how well their surrounding environment is maintained (naturally or artificially). Humans also are no exception to this. In other words, health of an environment influences the health of our society.

Hence, environmental safety must not be an option else a top priority of every business.

7. Public

Finally, social responsibility of business in general can also contribute to make the lives of people a little better.

Some examples of services towards public include:

- Building and maintaining devotional or spiritual places and gardens for people,
- Sponsoring the education of poor meritorious students,
- Organizing events for a social cause, etc.

Such philanthropic actions create a goodwill or fame for the business-organization in the psyche of general public, which though slowly but ultimately pay off in a due course of time.

The world is recognizing the importance of social responsibility of business.

Social responsibility in business or *corporate social responsibility* (CSR) pertains to people and organizations behaving and conducting business ethically and with sensitivity towards social, cultural, economic, and environmental issues. Striving for social responsibility helps individuals, organizations, and governments have a positive impact on development, business, and society.

Social responsibility means that individuals and companies have a duty to act in the best interests of their environments and society as a whole. Social responsibility as it applies to business is known as corporate social responsibility (CSR). Many companies, such as those with "green" policies, have made social responsibility an integral part of their business models.

Additionally, some investors use a company's social responsibility, or lack thereof, as an investment criterion. As such, a dedication to social responsibility can actually turn into profits, as the idea inspires investors to invest and consumers to purchase goods and services from the company. Put simply, social responsibility helps companies develop a good reputation.

Benefits of corporate social responsibility

Corporate social responsibility (CSR) offers a number of direct business benefits.

Responsible business reputation

Building a reputation as a responsible business will give you a competitive advantage. Companies often favour suppliers who have responsible policies. This is because it can have a positive impact on how they are seen by their customers. Some customers don't just prefer to deal with responsible companies, but insist on it.

Reducing costs

Reducing resource use, waste and emissions doesn't just help the environment - it saves you money too. It's not difficult to cut utility bills and waste disposal costs and you can bring immediate cash benefits.

Advantages of corporate social responsibility

Other business benefits of CSR include:

- A good reputation makes it easier to **recruit employees**.

- CSR will help you **retain staff**. Employees may be motivated stay longer, reducing the costs and disruption of recruitment and retraining.
- Employees are better motivated and **staff productivity** will increase.
- CSR helps ensure you **comply with regulatory requirements**.
- Activities such as involvement with the local community are ideal opportunities to generate **positive press coverage**.
- Good relationships with **local authorities** make doing business easier.
- Understanding the wider impact of your business can present opportunities to **develop new products and services**.
- CSR can make you more competitive and reduces the risk of sudden damage to your reputation (and sales). You may find it easier to **access finance** as investors are more willing to back a reputable business.

1.6 LET'S SUM UP

Business firms are organizations that are engaged in making a product or providing a service for a profit. Society, in its broadest sense, refers to human beings and to the social structures they collectively create. Business is part of society and engages in ongoing exchanges with its external environment. Together, business and society form an interactive social system in which the actions of each profoundly influence the other. According to the stakeholder theory of the firm, the purpose of the modern corporation is to create value for all of its stakeholders. To survive, all companies must make a profit for their owners. However, they also create many other kinds of value as well for their employees, customers, communities, and others. For both practical and ethical reasons, corporations must take all stakeholders' interests into account. Every business firm has economic and social relationships with others in society. Some are intended, some unintended; some are positive, others negative. Stakeholders are all those who affect, or are affected by, the actions of the firm. Some have a market relationship with the company, and others have a nonmarket relationship with it; some stakeholders are internal, and others are external. Stakeholders often have multiple interests and can exercise their economic, political, and other powers in ways that benefit or challenge the organization. Stakeholders may also act independently or create coalitions to influence the company. Stakeholder mapping is a technique for graphically representing stakeholders' relationship to an issue facing a firm. Modern corporations have developed a range of boundary-crossing departments and offices to manage interactions with market and nonmarket stakeholders. The organization of the corporation's boundary-spanning functions is complex. Most companies have many departments specifically charged with interacting with stakeholders. A number of broad forces shape the relationship between business and society. These include changing societal and ethical expectations; redefinition of the role of government; a dynamic global economy; ecological and natural resource concerns; and the transformational role of technology and innovation. To deal effectively with these changes, corporate strategy must address the expectations of all of the company's stakeholders.

1.7 KEY TERMS

Profitability, Sustainable, Society, Wages, Goods, Services, Business, Environment, Workplace, Good practice, Shareholders, Community, Corporate, Stakeholders, Obligations, Globalization, Entrepreneurs, Culture, Ethics, Perception, Welfare.

1.8 SELF-ASSESSMENT QUESTIONS

Q.1 Discuss the inseparable relationship between business and society

Q.2 Which statement is not correct about the business-society interdependence?

A) Business is a part of society

B) Business is separated from the rest of society by clear boundaries

C) Business activities impact other activities in society

D) Actions by governments rarely significantly affect business

1.9 FURTHER READINGS

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1.10 MODEL QUESTIONS

Q.1 Discuss the relationship between business and society.

Q.2 The major responsibility of a board of directors is to protect the interests of

a. society
b. stakeholders
c. stockholders
d. management

Q.3 Write a note on corporate citizenship, social responsibility, responsiveness, and performance.

Q.4 How would you define business' social responsibility to achieve sustainability for both natural environment and society?

Unit-2
Business Environment: Local to Global

LEARNING OBJECTIVES

After studying this lesson, you will be able to:

• explain the meaning of business environment;

• identify the features of business environment;

• describe the importance and types of business environment;

• describe the recent developments in Indian Economy that have greatly influenced the working of business units in India;

• explain the concept of social responsibility of business;

• state the social responsibility of business towards different interest groups; and

• explain the concept of business ethics.

STRUCTURE

1.1 INTRODUCTION

The word 'Business Environment' has been defined by various authors as follows:
"Business Environment encompasses the climate or set of conditions, economic, social, political or institutional in which business operations are conducted."—***Arthur M. Weimer***

"Environment contains the external factors that create opportunities and threats to the business. This includes socio-economic conditions, technology and political conditions." – ***William Gluck and Jauch***

''Business environment is the aggregate of all conditions, events and influences that surround and affect it."—***Keith Davis***

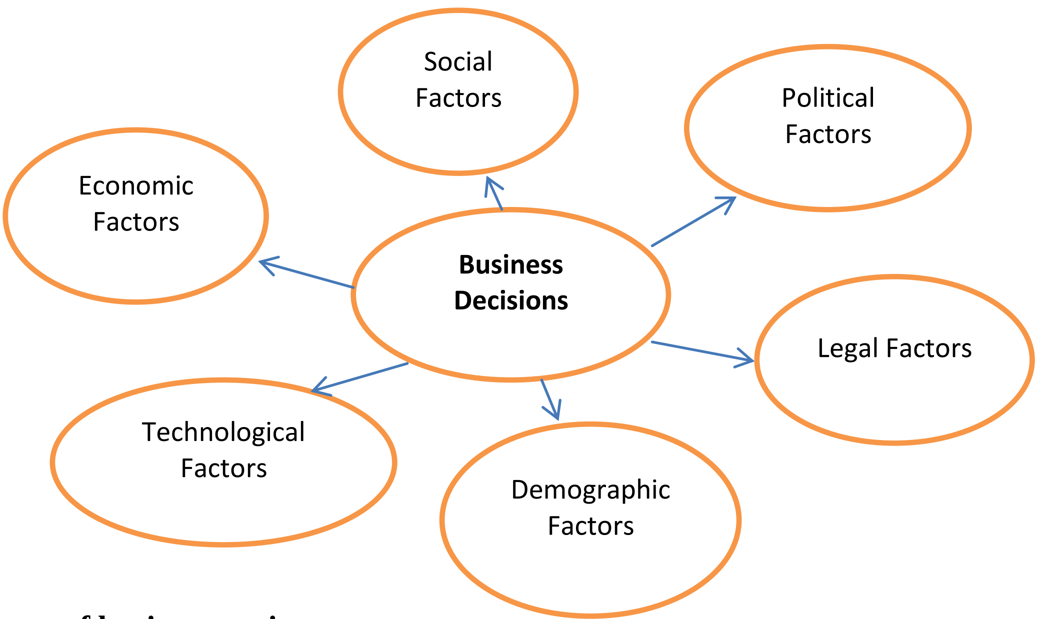
"The environment of business consists of all those external things to which it is exposed and by which it may be influenced directly or indirectly". —***Reinecke and Schoell***

"The total of all things external to firms and industries that affect the function of the organisation is called business environment."—***Wheeler***

Understanding the environment within which the business has to operate is very important for running a business unit successfully at any place. Because, the environmental factors influence almost every aspect of business, be it its nature, its location, the prices of products, the distribution system, or the personnel policies. Hence it is important to learn about the various components of the business environment, which consists of the economic aspect, the socio-cultural aspects, the political framework, the legal aspects and the technological aspects etc. In this chapter, we shall learn about the concept of business environment, its nature and significance and the various components of the environment. In addition, we shall also acquaint ourselves with the concept of social responsibility of business and business ethics.

The success of every business depends on adapting itself to the environment within which it functions. For example, when there is a change in the government policies,the business has to make the necessary changes to adapt itself to the new policies. Similarly, a change in the technology may render the existing products obsolete, as we have seen that the introduction of computer has replaced the typewriters; the colour television has made the black and white television out of fashion. Again a change in the fashion or customers' taste may shift the demand in the market for a particular product, e.g., the demand for jeans reduced the sale of other traditional wear. All these aspects are external factors that are beyond the control of the business. So the business units must have to adapt themselves to these changes in order to survive and succeed in business. Hence, it is very necessary to have a clear understanding of the concept of business environment and the nature of its various components.

The term 'business environment' connotes external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise. 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 bearing 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.



Features of business environment

On the basis of the above discussion the features of business environment can be summarized as follows:

(a) Business environment is the sum total of all factors external to the business firm and that greatly influences their functioning.

(b) It covers factors and forces like customers, competitors, suppliers, government, and the social, cultural, political, technological and legal conditions.

(c) The business environment is dynamic in nature that means, it keeps on changing.

(d) The changes in business environment are unpredictable. It is very difficult to predict the exact nature of future happenings and the changes in economic and social environment.

(e) Business Environment differs from place to place, region to region and country to country. Political conditions in India differ from those in Pakistan. Taste and values cherished by people in India and China vary considerably.

1.2 BUSINESS ETHICS

The word ‘Ethics’ originated from the Greek word ‘ethos’ meaning character, conduct and activities of the people based on moral principles. It is concerned with what is right and what is wrong in human behaviour on the basis of standard behaviour or conduct accepted by the society. Honesty, truthfulness, compassion, sympathy, feeling of brotherhood etc. are considered ethical.

Business ethics (also corporate ethics) is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations. Business ethics refers to contemporary standards or sets of values that govern the actions and behavior of an individual in the business organization.

Business ethics has normative and descriptive dimensions. As a corporate practice and a career specialization, the field is primarily normative. Academics attempting to understand business behavior employ descriptive methods. The range and quantity of business ethical issues reflects the interaction of profit-maximizing behavior with non-economic concerns. Interest in business ethics accelerated dramatically during the 1980s and 1990s, both within major corporations and within academia. For example, most major corporations today promote their commitment to non-economic values under headings such as ethics codes and social responsibility charters. Adam Smith said, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." Governments use laws and regulations to point business behavior in what they perceive to be beneficial directions. Ethics implicitly regulates areas and details of behavior that lie beyond governmental control. The emergence of large corporations with limited relationships and sensitivity to the communities in which they operate accelerated the development of formal ethics regimes.

Similarly, ethics from business point of view or business ethics are the moral principles, which guide the behaviour of businessmen or business activities in relation to the society. It provides certain code of conduct to carry on the business in a morally justified manner. Running the business without adopting unfair practices, being honest and truthful aboutquality of goods, charging fair prices, abiding to laws, paying taxes, duties and fees to the government honestly are some of the ethical behaviour of business.

Every business enterprise is an integral part of the society. It uses the scarce resources of the society to continue and grow. Hence, it is important that no activity of business is injurious to the long run interests of the society. However, it is observed that, in practice, there are a few socially undesirable aspects of business such as, polluting the environment, non-payment of taxes, manufacturing and selling adulterated products, giving misleading advertisement and so on. This has resulted in the development of the concept of social responsibility of business whereby the owners and managers of business are made conscious about the responsibilities of their business towards the community and its customers, workers etc.

Business ethics reflects the philosophy of business, of which one aim is to determine the fundamental purposes of a company. If a company's purpose is to maximize shareholder returns, then sacrificing profits to other concerns is a violation of its fiduciary responsibility. Corporate entities are legally considered as persons in USA and in most nations. The 'corporate persons' are legally entitled to the rights and liabilities due to citizens as persons.

Ethics are the rules or standards that govern our decisions on a daily basis. Many equate “ethics” with conscience or a simplistic sense of “right” and “wrong.” Others would say that ethics is an internal code that governs an individual’s conduct, ingrained into each person by family, faith, tradition, community, laws, and personal mores. Corporations and professional organizations, particularly licensing boards, generally will have a written “Code of Ethics” that governs standards of professional conduct expected of all in the field. It is important to note that “law” and “ethics” are not synonymous, nor are the “legal” and “ethical” courses of action in a given situation necessarily the same. Statutes and regulations passed by legislative bodies and administrative boards set forth the “law.”

Fairness in trading practices, trading conditions, financial contracting, sales practices, consultancy services, tax payments, internal audit, external audit and executive compensation also fall under the umbrella of finance and accounting. Particular corporate ethical/legal abuses include: creative accounting, earnings management, misleading financial analysis, insider trading, securities fraud, bribery/kickbacks and facilitation payments.

Human resource management occupies the sphere of activity of recruitment selection, orientation, performance appraisal, training and development, industrial relations andhealth and safety issues. Business Ethicists differ in their orientation towards labour ethics. Some assess human resource policies according to whether they support an egalitarian workplace and the dignity of labour.Issues including employment itself, privacy, compensation in accord with comparable worth, collective bargaining (and/or its opposite) can be seen either as inalienable rights or as negotiable. Discrimination by age (preferring the young or the old), gender/sexual harassment, race, religion, disability, weight and attractiveness. A common approach to remedying discrimination is affirmative action.

Ethics in marketing deals with the principles, values and/or ideals by which marketers (and marketing institutions) ought to act.Marketing ethics is also contested terrain, beyond the previously described issue of potential conflicts between profitability and other concerns. Ethical marketing issues include marketing redundant or dangerous products/services transparency about environmental risks, transparency about product ingredients such as genetically modified organisms possible health risks, financial risks, security risks, etc., respect for consumer privacy and autonomy, advertising truthfulness and fairness in pricing & distribution. According to Borgerson, and Schroeder (2008), marketing can influence individuals' perceptions of and interactions with other people, implying an ethical responsibility to avoid distorting those perceptions and interactions.

Business ethics is the study of proper business policies and practices regarding potentially controversial issues, such as corporate governance, insider trading, bribery, discrimination, corporate social responsibility and fiduciary responsibilities. Law often guides business ethics, while other times business ethics provide a basic framework that businesses may choose to follow to gain public acceptance.

Business ethics ensure that a certain required level of trust exists between consumers and various forms of market participants with businesses. For example, a portfolio manager must give the same consideration to the portfolios of family members and small individual investors. Such practices ensure that the public receives fair treatment.The concept of business ethics arose in the 1960s as companies became more aware of a rising consumer-based society that showed concerns regarding the environment, social causes and corporate responsibility. Business ethics goes beyond just a moral code of right and wrong; it attempts to reconcile what companies must do legally versus maintaining a competitive advantage over other businesses. Firms display business ethics in several ways.

Business ethics are moral principles that guide the way a business behaves. The same principles that determine an individual’s actions also apply to business. Acting in an ethical way involves distinguishing between “right” and “wrong” and then making the “right” choice. It is relatively easy to identify unethical business practices. For example, companies should not use child labour. They should not unlawfully use copyrighted materials and processes. They should not engage in bribery.

However, it is not always easy to create similar hard-and-fast definitions of good ethical practice. A company must make a competitive return for its shareholders and treat its employees fairly. A company also has wider responsibilities. It should minimize any harm to the environment and work in ways that do not damage the communities in which it operates. This is known as corporate social responsibility.The law is the key starting point for any business. Most leading businesses also have their own statement of Business Principles which set out their core values and standards.

A business should also follow relevant codes of practice that cover its sector. Many companies have created voluntary codes of practice that regulate practices in their industrial sector. These are often drawn up in consultation with governments, employees, local communities and other stakeholders. Business ethics and therefore business morality generally result from an individual's own moral standards in the context of the political and cultural environment in which the organization is operating.

Three levels of business ethics

Johnson and Scholes provide a useful way of classifying the diverse elements therein:

- the **macro** level: the role of business in the national and international organization of society the relative virtues of different political/social systems, such as free enterprise, centrally planned economies, etc., international relationships and the role of business on an international scale.

- the **corporate** level: corporate social responsibility ethical issues facing individual corporate entities (private and public sector) when formulating and implementing strategies.

- the **individual** level: the behaviour and actions of individuals within organizations.

The issue of business ethics is fundamental to corporate governance, of course, not least because corporate governance is often itself defined as business ethics. Good corporate governance lies in the eye of the stakeholder, and needs to recognize that different individuals and stakeholder groups define business ethics differently.

1.3 TYPES OF BUSINESS ENVIRONMENT

Confining business environment to uncontrollable external factors, it may be classified as (a) Economic environment; and (b) Non-economic environment. The economic environment includes economic conditions, economic policies and economic system of the country. Non-economic environment comprises social, political, legal, technological, demographic and natural environment. All these have a bearing on the strategies adopted by the firms and any change in these areas is likely to have a far-reaching impact on their operations. Let us have a brief idea about each of these areas of business environment.

Economic environment

The survival and success of each and every business enterprise depend fully on its economic environment. The main factors that affect the economic environment are:

(a) **Economic Conditions**: The economic conditions of a nation refer to a set of economic factors that have great influence on business organizations and their operations. These include gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market etc. All these help in improving the pace of economic growth.

(b) **Economic Policies**: All business activities and operations are directly influenced by the economic policies framed by the government from time to time. Some of the important economic policies are:

(i) Industrial policy

(ii) Fiscal policy

(iii) Monetary policy

(iv) Foreign investment policy

(v) Export –Import policy (Exim policy)

The government keeps on changing these policies from time to time in view of the developments taking place in the economic scenario, political expediency and the changing requirement. Every business firm has to function strictly within the policy framework and respond to the changes therein.

(c) **Economic System**: The world economy is primarily governed by three types of economic systems, viz., (i) Capitalist economy; (ii) Socialist economy; and (iii) Mixed economy. India has adopted the mixed economy system which implies co-existence of public sector and private sector.

Non-economic environment

The various elements of non-economic environment are as follows:

(a) **Social Environment**: The social environment of business includes social factors like customs, traditions, values, beliefs, poverty, literacy, life expectancy rate etc. The social structure and the values that a society cherishes have a considerable influence on the functioning of business firms. For example, during festive seasons there is an increase in the demand for new clothes, sweets, fruits, flower, etc. Due to increase in literacy rate the consumers are becoming more conscious of the quality of the products. Due to change in family composition, more nuclear families with single child concepts have come up. This increases the demand for the different types of household goods. It may be noted that the consumption patterns, the dressing and living styles of people belonging to different social structures and culture vary significantly.

(b) **Political Environment**: This includes the political system, the government policies and attitude towards the business community and the unionism. All these aspects have a bearing on the strategies adopted by the business firms. The stability of the government also influences business and related activities to a great extent. It sends a signal of strength, confidence to various interest groups and investors. Further, ideology of the political party also influences the business organization and its operations. You may be aware that Coca-Cola, a cold drink widely used even now, had to wind up operations in India in late seventies. Again the trade union activities also influence the operation of business enterprises. Most of the labour unions in India are affiliated to various political parties. Strikes, lockouts and labour disputes etc. also adversely affect the business operations. However, with the competitive business environment, trade unions are now showing great maturity and started contributing positively to the success of the business organization and its operations through workers participation in management.

(c) **Legal Environment**: This refers to set of laws, regulations, which influence the business organizations and their operations. Every business organization has to obey, and work within the framework of the law. The important legislations that concern the business enterprises include: (i) Companies Act, 1956 (ii) Foreign Exchange Management Act, 1999 (iii) The Factories Act, 1948 (iv) Industrial Disputes Act, 1972 (v) Payment of Gratuity Act, 1972 (vi) Industries (Development and Regulation) Act, 1951 (vii) Prevention of Food Adulteration Act, 1954 (viii) Essential Commodities Act, 2002 (ix) The Standards of Weights and Measures Act, 1956 (x) Monopolies and Restrictive Trade Practices Act, 1969 (xi) Trade Marks Act, 1999 (xii) Bureau of Indian Standards Act, 1986 (xiii) Consumer Protection Act, 1986 (xiv) Environment Protection Act (xv) Competition Act, 2002.

Besides, the above legislations, the following are also form part of the legal environment of business.

(i) Provisions of the Constitution: The provisions of the Articles of the Indian Constitution, particularly directive principles, rights and duties of citizens, legislative powers of the central and state government also influence the operation of business enterprises.

(ii) Judicial Decisions: The judiciary has to ensure that the legislature and the government function in the interest of the public and act within the boundaries of the constitution. The various judgments given by the court in different matters relating to trade and industry also influence the business activities.

(d) **Technological Environment**: Technological environment include the methods, techniques and approaches adopted for production of goods and services and its distribution. The varying technological environments of different countries affect the designing of products. For example, in USA and many other countries electrical appliances are designed for 110 volts. But when these are made for India, they have to be of 220 volts. In the modern competitive age, the pace of technological changes is very fast. Hence, in order to survive and grow in the market, a business has to adopt the technological changes from time to time. It may be noted that scientific research for improvement and innovation in products and services is a regular activity in most of the big industrial organizations. Now a days in fact, no firm can afford to persist with the outdated technologies.

(e) **Demographic Environment**: This refers to the size, density, distribution and growth rate of population. All these factors have a direct bearing on the demand for various goods and services. For example a country where population rate is high and children constitute a large section of population, then there is more demand for baby products. Similarly the demand of the people of cities and towns are different than the people of rural areas. The high rise of population indicates the easy availability of labour. These encourage the business enterprises to use labour intensive techniques of production. Moreover, availability of skill labour in certain areas motivates the firms to set up their units in such area. For example, the business units from America, Canada, Australia, Germany, UK, are coming to India due to easy availability of skilled manpower. Thus, a firm that keeps a watch on the changes on the demographic front and reads them accurately will find opportunities knocking at its doorsteps. (f) Natural Environment The natural environment includes geographical and ecological factors that influence the business operations. These factors include the availability of natural resources, weather and climatic condition, location aspect, topographical factors, etc.

Business is greatly influenced by the nature of natural environment. For example, sugar factories are set up only at those places where sugarcane can be grown. It is always considered better to establish manufacturing unit near the sources of input. Further, government's policies to maintain ecological balance, conservation of natural resources etc. put additional responsibility on the business sector.

1.4 NEED TO STUDY BUSINESS ENVIRONMENT

Environment of a business means the external forces influencing the business decisions. They can be forces of economic, social, political and technological factors. These factors are outside the control of the business. The business can do little to change them.

The following are the key components of general environment of a business.

Economic environment: Economic environment consists of economic factors that influence the business in a country. These factors include gross national product, corporate profits, inflation rate, employment, balance of payments, interest rates consumer income etc.

Social environment: It describes the characteristics of the society in which the organization exists. Literacy rate, customs, values, beliefs, lifestyle, demographic features and mobility of population are part of the social environment. It is important for managers to notice the direction in which the society is moving and formulate progressive policies according to the changing social scenario.

Political environment: It comprises political stability and the policies of the government. Ideological inclination of political parties, personal interest on politicians, influence of party forums etc. create political environment. For example, Bengaluru established itself as the most important IT centre of India mainly because of political support.

Legal environment: This consists of legislation that is passed by the parliament and state legislatures.Examples of such legislation specifically aimed at business operations include the Trade mark Act 1969, Essential Commodities Act 1955, Standards of Weights and Measures Act 1969 and Consumer Protection Act 1986.

Technological environment: It includes the level of technology available in a country. It also indicates the pace of research and development and progress made in introducing modern technology in production. Technology provides capital intensive but cost effective alternative to traditional labor intensive methods. In a competitive business environment technology is the key to development.

In order to solve economic problems of our country, the government took several steps including control by the State of certain industries, central planning and reduced importance of the private sector. The main objectives of India's development plans were:

- Initiate rapid economic growth to raise the standard of living, reduce unemployment and poverty;
- Become self-reliant and set up a strong industrial base with emphasis on heavy and basic industries;
- Reduce inequalities of income and wealth;

- Adopt a socialist pattern of development - based on equality and prevent exploitation of man by man.

There is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively. As stated above, the business environment is multifaceted, complex, and dynamic in nature and has a far-reaching impact on the survival and growth of the business. To be more specific, proper understanding of the social, political, legal and economic environment helps the business in the following ways:

(a) **Determining Opportunities and Threats:** The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.

(b) **Giving Direction for Growth:** The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.

(c) **Continuous Learning:** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.

(d) **Image Building:** Environmental understanding helps the business organizations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power.

(e) **Meeting Competition:** It helps the firms to analyze the competitors' strategies and formulate their own strategies accordingly.

(f) **Identifying Firm's Strength and Weakness:** Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments.

Significance of Business Environment

Business Environment refers to the "sum total of conditions which surround man at a given point in space and time. In the past, the environment of man consisted of only the physical aspects of the planet Earth (air, water and land) and the biotic communities. But in due course of time and advancement of society, man extended his environment through his social, economic and political function."

In a globalized economy, the business environment plays an important role in almost all business enterprises. The significance of business environment is explained with the help of the following points:

(i) **Help to understand internal Environment:** It is very much important for business enterprise to understand its internal environment, such as business policy, organization structure etc. In such case an effective management information system will help to predict the business environmental changes.

(ii) **Help to Understand Economic System:** The different kinds of economic systems influence the business in different ways. It is essential for a businessman and business firm to know about the role of capitalists, socialist and mixed economy.

(iii) **Help to Understand Economic Policy:** Economic policy has its own importance in business environment and it has an important place in business. The business environment helps to understand government policies such as, export-import policy, price policy; monetary policy, foreign exchange policy, industrial policy etc. have much effect on business.

(iv) **Help to Understand Market Conditions:** It is necessary for an enterprise to have the knowledge of market structure and changes taking place in it. The knowledge about increase and decrease in demand, supply, monopolistic practices, government participation in business etc., is necessary for an enterprise.

An analysis of business environment helps to identify strength, weakness, opportunities & threats (SWOT). Analysis is very necessary for the survival and growth of the business enterprise.

(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. than it can indicates 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 & 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 sue weakness 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 defuse 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 & 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: Business environment inform 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.

1.5 GLOBALIZATION AND INDIAN BUSINESS

Globalization is a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology. This process has effects on the environment, on culture, on political systems, on economic development and prosperity, and on human physical well-being in societies around the world.

Globalization is not new, though. For thousands of years, people—and, later, corporations—have been buying from and selling to each other in lands at great distances, such as through the famed Silk Road across Central Asia that connected China and Europe during the Middle Ages. Likewise, for centuries, people and corporations have invested in enterprises in other countries. In fact, many of the features of the current wave of globalization are similar to those prevailing before the outbreak of the First World War in 1914.

But policy and technological developments of the past few decades have spurred increases in cross-border trade, investment, and migration so large that many observers believe the world has entered a qualitatively new phase in its economic development.

This current wave of globalization has been driven by policies that have opened economies domestically and internationally. In the years since the Second World War, and especially during the past two decades, many governments have adopted free-market economic systems, vastly increasing their own productive potential and creating myriad new opportunities for international trade and investment. Governments also have negotiated dramatic reductions in barriers to commerce and have established international agreements to promote trade in goods, services, and investment. Taking advantage of new opportunities in foreign markets, corporations have built foreign factories and established production and marketing arrangements with foreign partners. A defining feature of globalization, therefore, is an international industrial and financial business structure.

Technology has been the other principal driver of globalization. Advances in information technology, in particular, have dramatically transformed economic life. Information technologies have given all sorts of individual economic actors—consumers, investors, businesses—valuable new tools for identifying and pursuing economic opportunities, including faster and more informed analyses of economic trends around the world, easy transfers of assets, and collaboration with far-flung partners.

To find the right balance between benefits and costs associated with globalization, citizens of all nations need to understand how globalization works and the policy choices facing them and their societies. Globalization101.org tries to provide an accurate analysis of the issues and controversies regarding globalization, without the slogans or ideological biases generally found in discussions of the topics.

The economic environment of business in India has been changing at a fast rate mainly due to the changes in the economic policies of the government. At the time of independence, the Indian economy was basically agrarian with a weak industrial base. To speed up the industrial growth and solve various economic problems, the government took several steps like state ownership on certain categories of industries, economic planning, reduced role of private sector, etc. The Government adopted several control measures on the functioning of private sector enterprises. All these efforts resulted a mixed response. There was growth in net national product, per capita income and development of capital goods sector and infrastructure. But rate of industrial growth was slow, inflation increased and government faced a serious foreign exchange crisis during eighties. As a result, the government of India introduced a radical change in economic policies in 1991. This policy abolished industrial licensing in most of the cases, allowed private participation in most industries; disinvestment was carried out in many public sector industrial enterprises and opened up the economy considerably. Foreign Investment Promotion Board was set up to channelize foreign capital investment in India.

Let us discuss the developments under three heads, viz., (a) Liberalization, (b) Privatization, and (c) Globalization.

(B) Liberalization

Liberalization refers to the process of eliminating unnecessary controls and restrictions on the smooth functioning of business enterprises. It includes:

(i) abolishing industrial licensing requirement in most of the industries;

(ii) freedom in deciding the scale of business activities;

(iii) freedom in fixing prices of goods and services;

(iv) simplifying the procedure for imports and exports;

(v) reduction in tax rates; and

(vi) simplified policies to attract foreign capital and technology to India.

Through this liberalization process, Indian Economy has opened up and started interacting with the world in a big way. This has resulted in easy entry of foreign business organizations in India. This has further resulted in stiff competition and efficiency. Ultimately, liberalization has helped us in achieving a high growth rate, easy availability of goods at competitive rates, a healthy and flourishing stock market, high foreign exchange reserve, low inflation rate, strong rupee, good industrial relations, etc.

(C) Privatization

Privatization refers to reducing the role of public sector by involving the private sectors in most activities. Due to the policy reforms announced in 1991, the expansion of public sector has literally come to a halt and the private sector registered fast growth in the post-liberalized period. The issues of privatization include:

(i) reduction in the number of industries reserved for the public sector from 17 to 8 (reduced further to 3 later on) and the introduction of selective competition in the reserved area;

(ii) disinvestment of shares of selected public sector industrial enterprises in order to raise resources and to encourage wider participation of general public and workers in the ownership in business;

(iii) improvement in performance through an MOU system by which managements are to be granted greater autonomy but held accountable for specified results. In India, as a result of these steps, the post- liberalization phase has witnessed a massive expansion of the private sector business in India. You can have an idea of their expansion from the fact that the total capital employed in top 500 private sector companies rose from Rs. 1,39,806 crores in 1992-93 to Rs. 2, 34, 751 crores in 1994-95 (an expansion of 68% in just two years).

(D) Globalization

Globalization means 'integrating' the economy of a country with the world economy. This implies free flow of goods and services, capital, technology and labour across national boundaries. To achieve these objectives of globalization, the government has adopted various measures such as reduction in custom duties, removal of quantitative restrictions or quotas on exports and imports, facilitating foreign investment and encouragement of foreign technology. These measures are expected to achieve a higher rate of growth, enlargement of employment potential, and reduction of regional disparities.

1.6 LET'S SUM UP

The term 'business environment' connotes external forces, factors and institutions that are beyond the control of the business and they affect the functioning of business enterprises. These include customers, competitors, suppliers, government, and the social, political, legal and technological factors etc. Business environment is multifaceted, complex, and dynamic in nature. The changes in business environment are unpredictable. It differs from place to place, region to region and country to country.

The interaction between the business and its environment helps in identifying the opportunities for and threats to the business. it open up new frontiers of growth for the business firms. Environmental analysis makes the task of managers easier in dealing with business challenges. It helps the firms to analyze the competitors' strategies and formulate their own strategies accordingly keeping in mind its own strength and weakness.

Social responsibility of business refers to the obligation of business enterprises to adopt policies and plans of actions that are desirable in terms of the expectation, values and interest of the society. It ensures that the interests of different groups of the public are not adversely affected by the decisions and policies of the business.

1.7 KEY TERMS

Business Ethics, Legal Environment, Social Environment, Demographic Environment, Liberalization, Social Responsibility of Business, Economic Environment, Natural Environment, Technological Environment, Economic Policy, Political Environment, Globalization. Privatization

1.8 SELF-ASSESSMENT QUESTIONS

Q.1 Define the term Business Environment in your own words.

Q.2 Rectify the following sentences if found incorrect.

(a) The business environment is static in nature.

(b) Business environment includes factors external as well as internal to business firm.

(c) The changes in business environment are quite predictable.

(d) Business environment helps the firm to identify the opportunities for the business.

Q.3 State any two features of business environment.

Q.4 Mention the different types of business environment.

Q.5 List the various elements of non-economic environment of business.

Q.6 State any two effects of liberalization of Indian economy.

1.9 FURTHER READINGS

Cherunilam, Francis (2013): Business Environment-Texts & Cases, Himalaya Publishing House, New Delhi

Gupta, C.B (2013): Essentials of Business Environment, Sultan Chand & Sons, New Delhi

Dhingra, I.C &DhingraNitin (2014): Concise Business Environment, Book Age Publications, New Delhi

Hill, Charles W.L & Jain, Arun K (2009): International Business, Tata McGraw Hill, New Delhi

1.10 MODEL QUESTIONS

Q.1 What is meant by Exim policy?

Q.2 Identify the types of non-economic environment in the following cases:

(a) Demand for new clothes increases during festive session.

(b) Computer has outdated typewriter.

(c) Coca-Cola is now being freely sold in the Indian market.

(d) Sugar factories are being set up where sugarcane is grown abundantly.

(e) Availability of skilled labour in a particular region

Q.3 What is meant by Globalization?

Q.4 State the meaning of ‘business ethics’.

Q.5 Identify the group towards which the business is responsible.

(a) When the organization pays the taxes on time.

(b) When the company produces good quality products and sells it at reasonable price.

(c) When the company organizes sport meet for the general public for a particular locality.

(d) When the company declares dividend at a higher rate.

(e) When the organization provides proper medical facility to the staff members.