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# BUSINESS ENVIRONMENT

# Definition of Business

- The term 'Business' refers to '**the state of being busy**'.
- **L.H. Honey** defined business as a human activity directed towards producing and acquiring wealth through buying and selling.
- **Keith and Carlo** defined business as 'a sum of all activities involved in the production and distribution of goods and services for private profit.'

# Characteristics of Business

## 1. Creation of Utilities:

- Business makes goods more useful to **satisfy human wants**.
- It enables people to **satisfy their wants more effectively and economically**.
- It carries goods from the place of production to the place of consumption (**place utility**).
- It makes goods available for use in future through storage (**time utility**).

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## **2. Deals with goods and services:**

- Every business enterprise produces or buys goods and services for selling them to others for a profit.
- Goods may be consumer goods or producer goods.
- Consumer goods are meant for direct use by the ultimate consumers (Ex: Bread, tea, vegetables, etc.), whereas the producer goods are used for the production of consumer or capital goods like raw materials, machinery, etc.

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### 3. Continuity in Dealings:

- Dealings in goods and services become business only if undertaken on regular basis.
- A single isolated transaction of purchase and sale does not constitute business

Continued.....

#### **4. Sale, Transfer, or Exchange:**

- All business activities involve transfer or exchange of goods and services for some consideration.
- The consideration, called price is usually expressed in terms of money.

#### **5. Profit Motive:**

- The primary objective of business is to earn profits.. Profits are essential for the survival as well as growth of business.

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## **6. Risk and Uncertainty:**

- Profit is the reward for assuming risk. Risk implies uncertainty of profit or the possibility of loss. Risk is a part and parcel of business.
- Business enterprises operate in uncertain and uncontrollable environment.

## **7. Economic Activity:**

- Business is an economic activity as it involves production and distribution of goods and services for earning money.

## **8. Art as well as Science:**

- Business is an art because it requires personal skills and experience. It is also a science because it is based on certain principles and laws



# Environment

- The term "environment" refers to the surroundings or conditions in which living organisms, including humans, exist and interact. It encompasses all the physical, biological, social, and cultural factors that influence an organism's life and development. The environment is not limited to a single aspect; rather, it includes various components and factors.

# Business Environment

- The business environment refers to those aspects of the surroundings of business enterprise which have influence on the functioning of business.
- Business is affected by internal and external environmental factors. These internal and external factors constitute business environment.

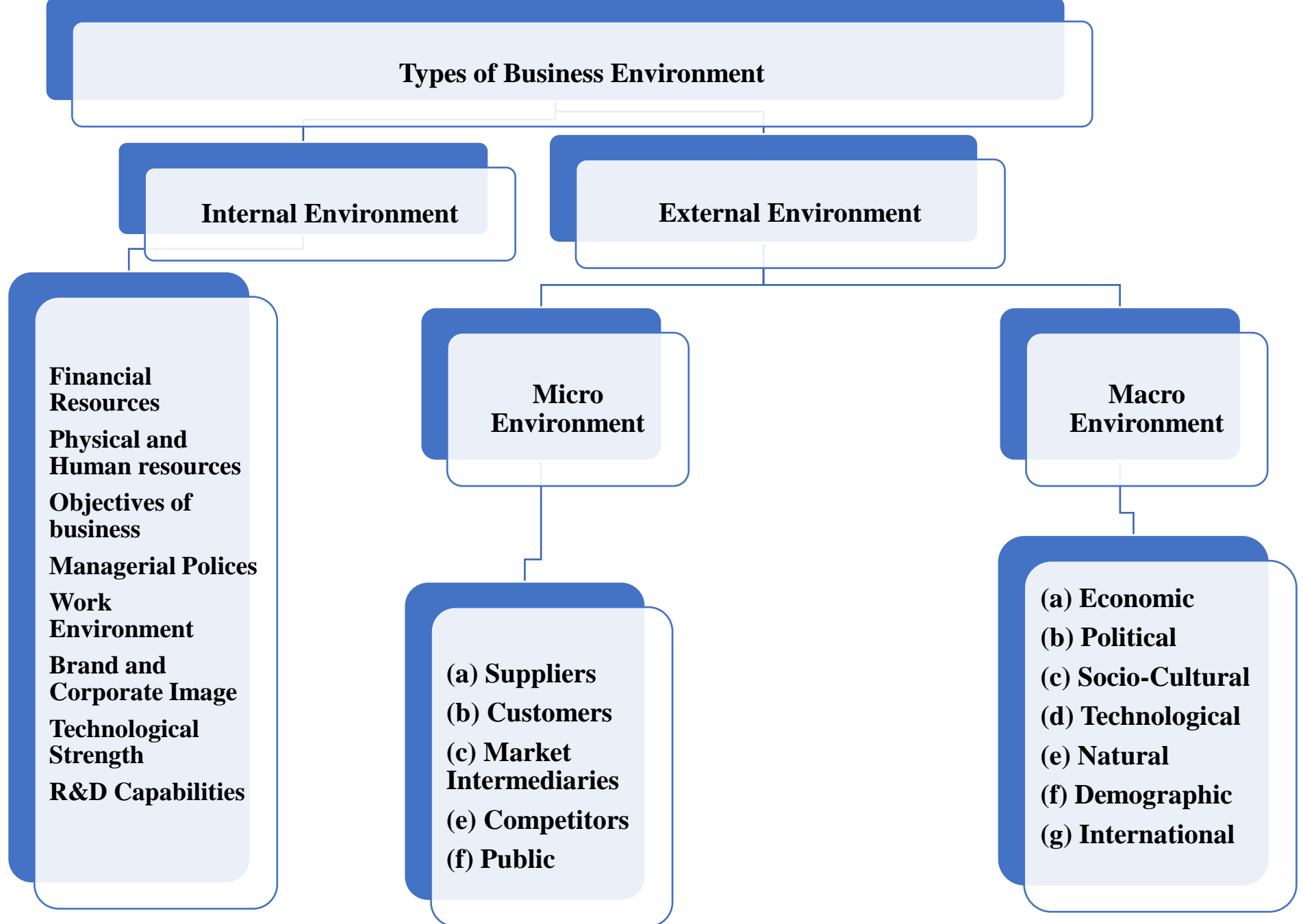
# Business Environment

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# Meaning of Business Environment

- **Aswathappa**, "All those factors, whether internal or external, that affect the functioning of an organization."
- **Bayard O. Wheeler**, Business environment is the total of all things external to business firms and industries which affect their organization and operation.

# Types of Business Environment



# External Environment

- External environment refers to the external aspects of surroundings of business enterprise which have influence on the functioning of business.
- External aspects of the surroundings are by and large, beyond the control of the business.
- External environment includes factors outside the firm which can provide opportunities and pose threats to the firms.

# External Environment

- External business environment may be defined as the set of external factors such as economic, socio-culture factors, government and legal factors. Demographic factors, which are uncontrollable in nature and affect the business decision of a firm or company.
- **Reinche and Schoell**, “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.



# External Environment

- **William Glueck**, “In environment, there are external factors which consistently brings opportunities and threats to the business firm. It includes social, economic, technological, and political conditions.
- External Environment is of two types:
  1. **Micro/Operating Environment**
  2. **Macro/General Environment**

# 1. Micro/Operating Environment

- The forces which are close to the company and affect its ability to work constitute micro environment. It is known as operating environment of business. It consists of company's immediate environment that affects the performance of the company.
- It includes **Suppliers, customers, market intermediaries, competitors and public.**

# 1. Micro/Operating Environment

- **Philip Kotler**, “The micro environment consists of factors in the company’s immediate environment which affect the performance of the business unit these includes suppliers, marketing intermediaries, competitors, customers, and the public.”
- **Hill and Jones**, “The micro environment of the company consists of elements that directly affects the company such as competitors, customers and suppliers.”

# **1. Micro/Operating Environment Includes:**

- 1. Suppliers**
- 2. Customers**
- 3. Market Intermediaries**
- 4. Competitors**
- 5. Public**

# 1. Suppliers

Every business requires a number of suppliers, who supply raw materials and components to the business unit. Following points should be kept in mind regarding suppliers:

- **Reliability**
- **Multiple Suppliers**

## 2. Customers

Customers is the central point of any business. Success of a business organisation depends upon identifying customers, their needs, tastes, likings, etc. and enhancing the level of customers satisfaction. Because of increase in competition, attracting and satisfying the customers has become more challenging. Customers may be of different types:

1. Wholesale customers
2. Retail Customers
3. Industrial Customers
4. Government and other institutions
5. Foreign customers

### 3. Market Intermediaries

Every may be assisted by market intermediaries which includes agents, and brokers who helps the business unit to find customers. It is a link between business unit and final customers.

Market Intermediaries helps the business unit to promote, sell and distribute its goods to final buyers. Market intermediaries includes the following:

- **Middleman** (wholesaler, retailers, departmental stores)
- **Marketing agencies** (advertising agencies, consultancy firms, media firms)
- **Financial Intermediaries**(banks, insurance companies, financial institutions, markets)
- **Physical Intermediaries**

## 4. Competitors

Business has to adjust its various activities according to actions and reactions of competitors. Competitor means other business units which are marketing or producing similar products or a very close substitute of our product.

For example a motorcycle manufacturer faces competition not only from other brands of motorcycle but also from other type of two-wheelers, viz., scooters.

For taking a edge over competitors, a business unit will have to understand the strategies framed by competitors and respond timely by making counter-strategies.



## 5. Public

“Public is any group that has actual or potential interest in the business. To achieve this interest, it has its impact on the business.”

Public includes users and non-users of the product:

1. **Media Public:** It includes news papers, magazines, journals, which may publish favourable or adverse remarks about company. Both type of remarks in media have effect on the reputation of company.
2. **Local Public:** Local Public refers to people living in the area where business unit is set up. Environment pollution is an issue that is taken by local public. Action of local public on this issue have forced some business unit to suspend operations or to install pollution control equipments.

## 2. Macro/General Environment

## 2. Macro/General Environment

- Macro environment means general environment of business. Macro forces are uncontrollable in comparison to the micro forces of the environment.
- The growth and survival of business depend upon its adaptability to macro environmental factors which includes economic environment, political environment, socio-cultural environment, technological environment, natural environment, international environment and demographic environment.
- These factors create opportunities and poses threats to the business.

# Definitions of Macro/General Environment

- **Philip Kotler**, “Macro environment includes forces that create opportunities and poses threats to the business units. It includes economic, demographic, natural, technological, political, and cultural environment.
- **Hill and Jones**, “The macro environment consists of broader economic, social, political, legal, demographic, and technological setting within which the industry and the business units are placed.

# **1. Macro/General Environment Includes:**

- 1. Economic Environment**
- 2. Political Environment**
- 3. Socio-Cultural Environment**
- 4. Technological Environment**
- 5. Natural/Physical Environment**
- 6. Demographic Environment**
- 7. International Environment**

# 1. Economic Environment

- The economic environment of business refers to the **external conditions, factors, and forces** that have an impact on the working of business viz. economic system, economic policy, nature of economy, trade cycles, economic resources, level of income, distribution of income and wealth, statutory provisions etc.
- Economic environment is very complex in nature . It is very dynamic.
- It keeps on changing with change in the government policies, change in political situations.

# Elements of Economic Environment



Economic Conditions

Economic Policies

Economic System

# Economic Conditions

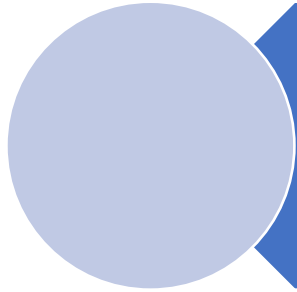
- Improvement in the economic conditions improve the style and quality of life, consumption level and purchasing power of public.
- Economic condition of the economy affect the business.
- Economic condition includes: Income level, distribution of income, demand and supply trends, and various phases of trade cycle.
- If boom conditions are prevailing in the economy it positively effect the demand and market share.
- If economy is in depression, it will negatively effect the business.



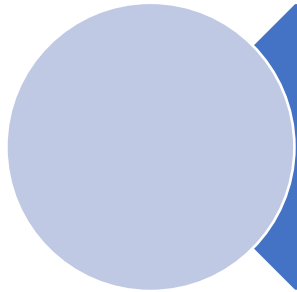
# Economic Policies

- Government policies related to taxation, trade, investment, and regulation impact business operations. Changes in policies can influence costs, profits, and market dynamics, prompting businesses to adapt their strategies accordingly.
- Important economic policies are:
  1. Monetary Policy
  2. Fiscal Policy
  3. Ex-Im Policy
  4. Foreign Investment Policy
  5. Industrial Policy
  6. Industrial licensing Policy

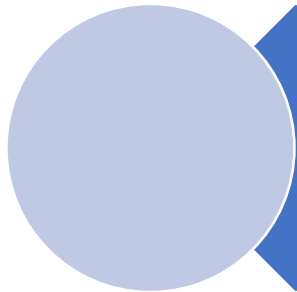
# Economic System



Capitalism



Socialism



Mixed Economy

## 2. Political Environment

- The political environment of business refers to the influence and impact of the **political system, government policies, regulations, and political stability on the operations, decision-making**, and overall success of businesses within a specific country or region.
- This environment is characterized by the interactions between the government and the business community, including how laws, regulations, and political dynamics shape business activities.

## 2. Key Elements of Political Environment

- Government Policies and Regulations
- Political Stability and Instability
- Political Ideology and Orientation
- Government Support and Incentives
- Trade Policies and International Relations
- Regulatory Stability and Transparency
- Lobbying and Advocacy
- Political Risks

### 3. Socio-Cultural Environment

- The socio-cultural environment of business refers to the influence of social and cultural factors on the operations, strategies, and interactions of businesses within a specific society or cultural context.
- This environment encompasses various **societal norms, values, beliefs, behaviors, and demographic characteristics that shape consumer preferences, employee attitudes, market trends, and business practices.**

### 3. Socio-Cultural Environment (key elements)

- Cultural Norms and Values
- Consumer Behavior and Preferences
- Demographics
- Social Trends and Attitudes
- Language and Communication
- Workforce Diversity and Inclusion
- Ethical and Moral Values
- Social Media and Technology
- Cultural Sensitivity in Global Business
- Cultural Adaptation and Localization
- Social Responsibility and Community Engagement

## 4. Technological Environment

- The technological environment of business refers to the impact of technological **advancements, innovations, and trends on the operations, strategies, and overall landscape of businesses.**
- This environment encompasses various technological developments that can influence industries, shape consumer behaviors, and drive changes in business models.

## 5. Demographic Environment

- The demographic environment of business refers to the influence of **population characteristics and trends on the operations, strategies, and market dynamics of businesses.**
- This environment encompasses various demographic factors that can impact **consumer behavior, workforce composition, and market demand.**



## 5. Demographic Environment (key factors)

- Population Size and Growth
- Age Distribution
- Gender Distribution
- Ethnic and Cultural Diversity
- Income Levels and Distribution
- Educational Attainment
- Family Structure and Household Size

## 6. International Environment

- The international environment of business refers to the impact of global factors, including **international trade, economics, politics, and cultural diversity**, on the operations, strategies, and interactions of businesses operating across national borders.
- This environment encompasses various elements that businesses need to consider when engaging in cross-border activities.

## 6. International Environment (key factors)

- Global Market Access and Expansion
- International Trade Policies
- Economic Systems and Exchange Rates
- Cultural and Language Diversity
- Global Supply Chains
- Export and Import Regulations
- International Business Laws
- Political and Regulatory Risk

# Environment Analysis

# Environment Analysis

- Environment is largely influenced by economic, technological, political, socio-cultural, legal, natural, and global factors. For analysing the impact of these factors on business, environmental analysis is required.
- Firm which systematically analysis and diagnose the environment are more effective then those which don't analyse the environment.
- Environment analysis is careful study of various factors influencing the business.
- It is the process by which organisation monitor their relevant environment to identify opportunities and threats affecting their business.

# Meaning of Environment Analysis

- Environment analysis helps to identify opportunities and to plan to take appropriate actions to avail these opportunities. It also helps in developing an early warning system to prevent threats or develop strategies which can turn a threat to a the firm's advantage.
- **Meaning:** Environment analysis is the study of various components of environment affecting the business, like economics factors, technological, political factors, global factors, etc.
- Environmental analysis refers to the **process of assessing and evaluating** various external factors that can influence an organization, business, project, or individual. These factors, which collectively form the "environment," can have significant impacts on decision-making, strategy formulation, and overall success.

# Objectives of Environment Analysis

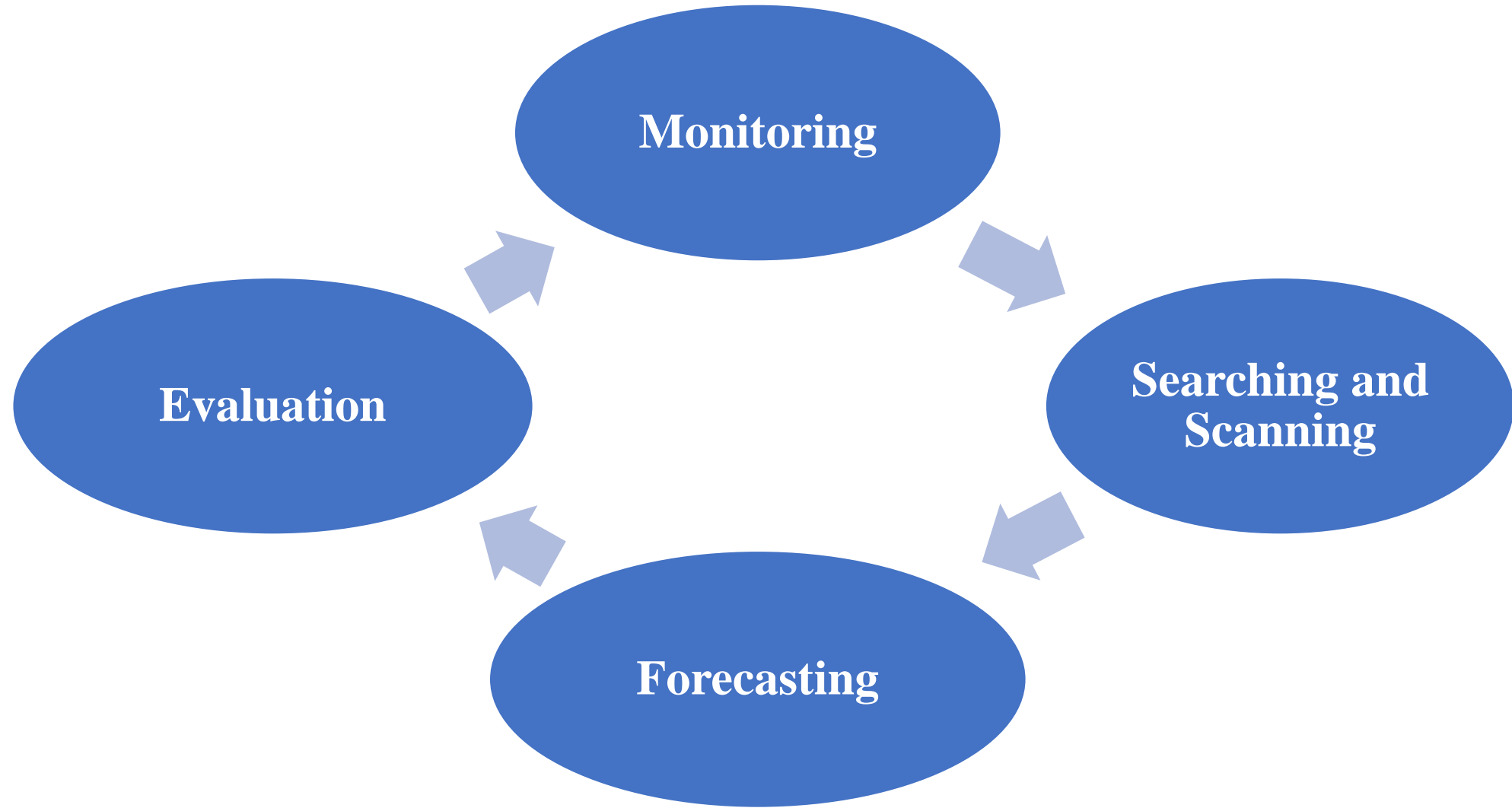
1. To Understand Current and Probable Changes in Environment
2. To Provide Input for Decision-Making
3. To Formulate Appropriate Strategy
4. To Ensure Optimum Utilisation of Resources
5. Other Objectives
  1. To identify the threats and opportunities of environment
  2. To identify the strengths and weakness of the business
  3. To diversify the business in new area and to keep the business dynamics
  4. To foresee the impact of various components of business environment.

# Process of Environment Analysis

- The process of environment analysis includes various steps like monitoring various steps like monitoring various sources of relevant information related to environmental factors affecting our business, searching and scanning the required information, making necessary forecasts on the basis of information so collected.
- Later these information and forecasts are assessed and evaluated to understand various environmental changes and their impact on business.



# Steps in the Process of Environment Analysis



# Steps in the Process of Environment Analysis

**1. Monitoring:** It means to understand the various environmental factors which affect the business and to identify published or unpublished sources of information which affect our business. These sources can be :

1. News Papers
2. Magazines and journals
3. Government Publications
4. Institutional Publications
5. International Publications

# Steps in the Process of Environment Analysis

## 2. Searching and Scanning:

Even when the sources of required information exist, these may not be readily available. Search and scanning are therefore needed to manage the timely availability of the required information. A number of organisations have '**clipping services**' which constantly scan newspapers, periodicals etc. and prepare clippings containing information required by different departments or executives of organisation.

# Steps in the Process of Environment Analysis

## 3. Forecasting:

Monitoring and scanning provide a picture of what has already taken place and what is happening. **Strategic decision making** , however requires a future orientation. So, forecasting is an essential element in environment analysis.

- Forecasting is **concerned with estimation of direction and intensity of change** in environment factors.
- Forecasting of important components of business environment like economic environment, social environment, technological environment, and political environment **help in formulating plans and strategies.**

# Steps in the Process of Environment Analysis

## 4. Evaluation and Assessment

- Monitoring, Scanning and forecasting are not end in themselves. They simply provide information regarding current business environment and future environmental. But in assessment, we identify and evaluate as to how these environmental changes will effect our business sot that appropriate counter strategies can be made well in time.
- Assessment provides us answer to the key issues presented by the environment and their impact on business.

# Environment Scanning

# Environment Scanning

- Business environment scanning, also known as environmental scanning or business environmental analysis, refers to the **process of monitoring, evaluating, and interpreting the internal and external factors that can influence a business's operations, decision-making, and overall success.**
- This process helps organizations stay **informed about changes and trends** in the environment in which they operate, **enabling them to adapt and respond effectively to emerging opportunities and threats.**

# Process of Environment Scanning

- 1. Identification of Factors:** Businesses identify the key internal and external factors that can impact their operations. Internal factors include aspects like company culture, resources, and capabilities, while external factors encompass economic, social, technological, political, and competitive factors.
- 2. Gathering Information:** Once the relevant factors are identified, organizations collect information about these factors from various sources. These sources can include market research reports, industry publications, government publications, competitor analysis, and social media trends.
- 3. Analysis and Interpretation:** The gathered information is analyzed to understand its implications for the business. This step involves identifying patterns, trends, and potential shifts that could impact the business positively or negatively.



# Process of Environment Scanning

4. **Assessment of Impact:** The next step is to assess how the identified trends and changes might affect the business. This involves evaluating the potential risks, opportunities, and challenges that could arise due to these factors.
5. **Decision-Making:** Based on the analysis and assessment, businesses make informed decisions about their strategies, operations, and resource allocation. This may involve adjusting existing plans, launching new initiatives, or making changes to the business model.

# Factors Affecting Environment Scanning

- 1. Economic Factors:** Economic indicators like inflation, interest rates, GDP growth, and unemployment can significantly impact business operations and consumer behavior.
- 2. Technological Factors:** Advances in technology can disrupt industries and create new opportunities. Monitoring technological trends is crucial to staying competitive.
- 3. Political and Legal Factors:** Changes in regulations, policies, and government stability can influence business operations, trade, and investments.
- 4. Social and Cultural Factors:** Shifts in societal values, demographics, and consumer preferences can affect market demand and product/service offerings.
- 5. Environmental Factors:** Increasing focus on sustainability and environmental concerns can impact industries and consumer preferences.

# Factors Affecting Environment Scanning

5. **Competitive Factors:** Monitoring competitors' strategies, strengths, and weaknesses helps businesses anticipate competitive threats and opportunities.
6. **Market Trends:** Identifying emerging market trends and consumer behaviors allows businesses to align their offerings with customer demands.
7. **Global Factors:** Global events, trade dynamics, and geopolitical tensions can affect supply chains, markets, and business strategies.
8. **Technological Factors:** Rapid technological advancements and innovations can create new markets, products, and ways of doing business.
9. **Legal and Regulatory Factors:** Changes in laws and regulations can impact industries, market entry, and compliance requirements.

# Factors Affecting Environment Scanning

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# Factors Affecting Environment Scanning

- 11. Social and Cultural Factors:** Shifting societal attitudes, lifestyles, and cultural norms can influence consumer preferences and market demand.
- 12. Demographic Factors:** Population trends, age distribution, and urbanization can impact target markets and consumption patterns.
- 13. Ethical Factors:** Increasing consumer awareness of ethical considerations can influence purchasing decisions and brand perception.
- 14. Natural Factors:** Natural disasters, resource availability, and climate change can affect supply chains and business continuity.

Business environment scanning is a continuous and dynamic process that helps organizations proactively navigate the complexities of their operating environment and make well-informed strategic decisions.

# Techniques of Environment Scanning

# Techniques of Environment Scanning

**SWOT Analysis**

**ETOP Analysis**

**PESTEL Analysis**

**Scenario Planning**

**Porter's Five Forces Analysis**

**Competitor Analysis**

**Market Research**

**Trend Analysis**

# SWOT Analysis

**Strengths**

**Weaknesses**

**SWOT**

**Opportunities**

**Threats**



# SWOT Analysis

SWOT stands for Strengths, Weaknesses, Opportunities, and Threats. This technique involves identifying the internal strengths and weaknesses of a business and the external opportunities and threats it faces. It helps in understanding the organization's current position and its potential for growth.

Here's a detailed breakdown of each component of SWOT analysis:

- **Strengths**
- **Weaknesses**
- **Opportunities**
- **Threats**

# SWOT Analysis

Here's a detailed breakdown of each component of SWOT analysis:

## 1. Strengths (S):

Strengths are the internal attributes and capabilities that give an organization a competitive advantage and contribute to its success. These are the positive characteristics that set the organization apart from others in its industry. Examples of strengths could include:

- Strong brand reputation
- Skilled and motivated workforce
- Proprietary technology or intellectual property
- Efficient supply chain and distribution network
- Financial stability and resources

# SWOT Analysis

## 2. Weaknesses (W):

Weaknesses refer to the internal limitations and shortcomings that hinder the organization's performance and potential for growth. Identifying weaknesses is crucial for addressing areas that need improvement. Examples of weaknesses could include:

1. Lack of experienced management
2. Outdated technology or processes
3. Limited product/service offerings
4. High employee turnover
5. Insufficient financial resources

# SWOT Analysis

## 3. Opportunities:

Opportunities are external factors and trends that the organization can capitalize on to achieve its objectives and enhance its performance. Identifying opportunities helps organizations align their strategies with emerging market conditions. Examples of opportunities could include:

1. Growing market demand for a particular product/service
2. Expansion into new geographic markets
3. Technological advancements that can improve operations
4. Changes in consumer preferences that align with the organization's offerings
5. Mergers and acquisitions to gain a competitive edge

# SWOT Analysis

## 3. Threats (T):

Threats are external factors that have the potential to negatively impact the organization's operations and success. Identifying threats allows the organization to develop strategies to mitigate or respond to these challenges. Examples of threats could include:

1. Intense competition from rival companies
2. Economic downturns affecting consumer spending
3. Changing regulatory environment
4. Rapid technological changes that could render products/services obsolete
5. Natural disasters or geopolitical instability affecting supply chains

# ETOP Analysis

## **ENVIRONMENTAL THREATS AND OPPORTUNITIES PROFILE**

- In a business context, ETOP stands for Environmental Threats and Opportunities Profile. ETOP is a strategic management tool used by organizations to analyze and assess the external business environment. It helps businesses identify and prioritize the key threats and opportunities they face in their operating environment. This analysis aids in making informed decisions and formulating strategies to adapt to or leverage these external factors effectively.

# Social Responsibilities of Business and Business Ethics

## **CONCEPT OF SOCIAL, RESPONSIBILITY:**

A business is a part of society. So, a business enterprise should do business and earn money in ways that fulfill the aspirations of the society. Thus social responsibility relates to the voluntary efforts on the part of the businessmen to contribute to the social well being.

The businessmen make use of resources of society and earn money from the members of society so they must do something for the society.

# Arguments in favour of Social Responsibility:

- 1. Justification for Existence and Growth:** Business is the creation of society therefore it should respond according to the demands of the society. To survive and grow in society for long run the business must provide continuous services to the society.
- 2. Long term Interest of the firm:** A firm can improve its image and builds goodwill in the long run when its highest goal is to serve the society . If it indulges in unfair Trade Practices e.g. adulteration, hoarding, black marketing, it may not be able to exist for long.
- 3. Avoidance of government regulations:** Business can avoid the problem of government regulations by voluntarily assuming social responsibilities.



# Arguments in favor of Social Responsibility:

**4. Availability of resources with business:** Business has valuable financial and human resources which can be effectively used for solving problems of the society.

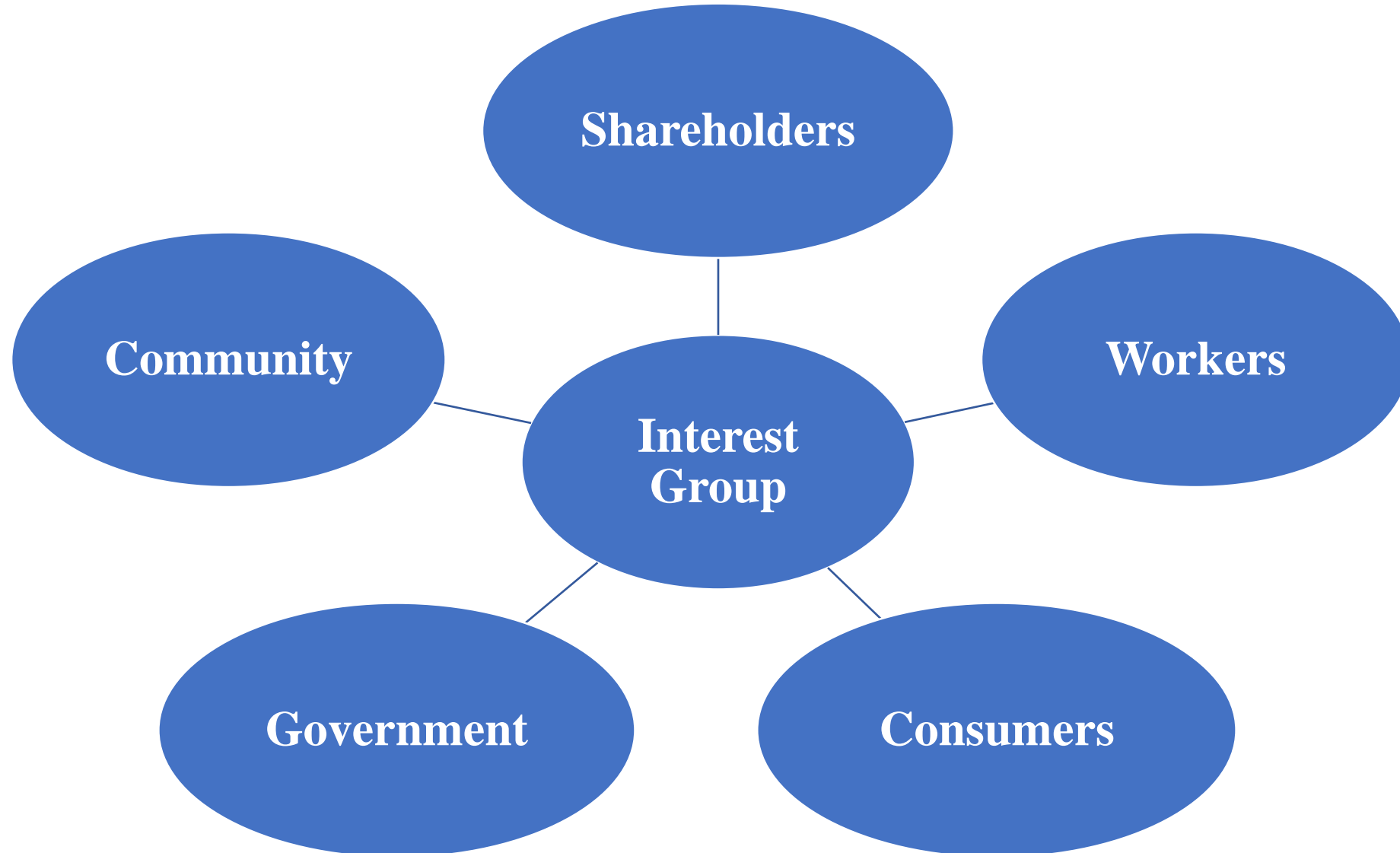
**5. Better environment for doing business:** It is the social responsibility of business enterprise to provide better Quality of life and standard of living to people. So, business will get better community to conduct business.

**6. Contribution to social problems:** Some of the social problems have been created by business firms themselves such as pollution, creation of unsafe workplaces, discrimination etc, Therefore, it is the moral obligation of business to solve such social problems.

# Arguments Against Social Responsibility:

- 1. Profit Motive** – A business is an economic entity that is guided by profit motive. It should not waste its energies and resources in fulfilling social responsibility.
- 2. Burden on consumers** – Involvement of business in social responsibilities involve a lot of expenditure which will ultimately be borne by the customers.
- 3. Lack of Social Skills** -The business firms and managers have the skills to handle business operation. They are not expert to tackle the social problems like poverty, over population etc. Therefore, social problems must be tackled by social experts.
- 4. Lack of public support** – Generally public does not like business involvement in social problems. Therefore, business cannot fulfill social responsibility because of lack of public confidence & cooperation.

# **SOCIAL RESPONSIBILITY TOWARDS DIFFERENT INTEREST GROUPS**



# 1. Responsibility towards shareholders:

- (i) To ensure a fair and regular return on the investment of shareholders.
- (ii) To ensure the safety of their investment
- (iii) To strengthen financial position of the company.
- (iv) To safeguard the assets of the business.
- (v) To protect the interest of all types of investors in the business.

## 2. Responsibility Towards workers:

- (i) Providing fair compensation and benefits,
- (ii) Providing good and safe Working conditions,
- (iii) To develop a sense of belongingness.

### 3. Responsibility toward consumers

1. To supply right quality of goods & services at reasonable prices.
2. To ensure regular and adequate supply of products.
3. To inform them about new products and new uses of existing products.
4. To handle the customers grievance promptly.

## 4. Responsibility Towards Government

1. To pay taxes honestly
2. To observe rules laid down by the government,
3. To avoid corrupting government employees.

## 5. Responsibility towards community

1. To make available opportunities for employment,
2. To avoid polluting the environment,
3. To up lift the weaker sections of society



# Business Ethics

# Business Ethics

- Refers to the moral values or standards or norms which govern the activities of a businessman. Ethics define what is right and what is wrong.
- By ethic we mean the business practices which are desirable from the point of view of Society.
- The purpose of business ethics is to guide the managers and employees in performing their job.
- Example of business ethics are charging fair price from customers, giving fair treatment to workers, earning reasonable profits and paying taxes to the government honestly.

# ELEMENTS OF BUSINESS ETHICS

1. **Top management commitment** – The CEO and higher level managers must be committed to ethical norms of behavior. This would set an example for all employees and encourage them to follow ethical practice.
2. **Publication of code** – Code of ethics is a formal written document of the principles, values and standards that guide a firm's actions. It may cover areas like honesty, quality, safety, health care etc.
3. **Establishment of compliance mechanism:** A suitable mechanism should be developed to comply with the ethical standards of the enterprise. The mechanism should be properly communicated to all in the organization.

# ELEMENTS OF BUSINESS ETHICS

**4. Employee involvement:** It is the employees of the lower levels who implement ethical principal so they must be involved in the process of developing ethical code.

**5. Measuring results:** Although it is difficult to measure the ethical results but it must be verified and audited that have for work is being carried according to ethical standards.

Thank You