

CHAPTER III

BUSINESS ENVIRONMENT

Meaning

The term business environment means the sum total of all individuals, institutions and other forces that are outside the control of a business enterprise. But they may affect its performance.

Dimensions/Components of Business Environment

1. Economic Environment

Economic Environment consists of -

GDP, Inflation Rate, Interest Rate, Value of rupee, Stock market indices, Tax rate, Change in disposable income of people etc..

The businessmen should carefully scrutinize the various aspects of economic environment and take most appropriate measures to deal with these elements.

2. Social Environment

The social environment of business includes the social force like-

Customs and Traditions, Values, Social Trends, Fashion, Society's expectation from business etc..

3. Technological Environment

It includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business.

Eg:- Type writer – Computer

Ordinary Camera – Digital Camera

Fountain Pen – Ball point pen.

4. Political Environment

It includes political conditions such as general stability and peace in the country and government attitude towards business.

5. Legal Environment

It consists of various laws and administrative orders of the government, decision of various commissions and government agencies and judicial system of the country.

Features of Business Environment

1. Totality Of external forces

Business environment is the sum total of all things external to a business firm and as such is aggregative in nature.

2. Specific and General Forces

Business environment consists of both specific and general forces.

Specific forces:- (investors, Customers, employees, suppliers etc.) affect directly.

General forces:- (Social, political, economic, legal, technological etc.) have indirect impact on business firms.

3. Inter – relatedness

Different elements of business environment are closely inter-related. Eg. Increasing presence of women in work force lead to increase in demand in cosmetic industry, fashion industry, home appliances, packed food etc.

4. Dynamic Nature

Business environment keeps on changing frequently.

5. Uncertainty

Business environment is largely uncertain (because the future of business is unpredictable) as it is very difficult to predict future happening.

6. Complexity

Business environment is complex because it consist of numerous inter-related and dynamic forces. (difficult to know the effect of change)

7. Relativity

Business environment is relative concept because it differs from one country to another and from one time period to another.

Importance of Business Environment

1.It enables the firm to identify opportunities and getting the first mover advantage.

Environmental understanding enables an enterprise to identify business opportunities. Early to identification of opportunities helps the enterprise to be the first to exploit them.

Eg. Wonderla, Amazon, Maruthi

2.It helps the firm to identify threats and early warning signals.

Environmental awareness can help managers to identify various threats and to take steps in time to face them.

Eg.: Chinese product , Entry of MNC

3.It helps in tapping useful resources

Environment scanning helps the producers to collect in advance the required raw materials to meet the changes in demand.

4. It helps in coping with rapid changes.

All types of enterprises are facing rapid changes in their environment. Inorder to effectively cope with these changes; managers must understand the environment and develop suitable courses of action.

Eg BSNL -- JIO

5.It helps in assisting in planning and policy formulation

Understanding and analysis of environment serves as the basis for deciding the future course of action (planning) and in framing guidelines for decision making (policy).

6.It helps in improving performance

The business enterprise that continuously monitor their environment and adopt suitable business practices can improve their present and future performance.

Economic reforms

As a part of economic reforms, the government of India announced a new industrial policy in 1991.

Features of Industrial Policy

Reduce the number of industries to six which require compulsory licensing.

De-reserved many industries which where earlier reserved for the public sector.

Disinvestment of many public sector companies.

100% foreign direct investment in many activities.

Setup foreign investment promotion board.

Liberalisation, Privatisation and Globalisation (LPG) are the guiding principles of the new economic policy.

1. Liberalisation

It means liberating the economy from the legislations and restrictions on economic growth.

Liberalisation puts an end to the license-permit-quota raj.

Its features are –

Abolition of licensing requirement in most of the industries except a short list.

Freedom in deciding the scale of business activities

Removal of restrictions on the movement of goods and services.

Freedom in the fixation of prices of goods and services.

Reduction of tax rates.

Simplification of procedures for imports and exports.

2. Privatisation

Privatization is the opposite of nationalization. It aims at providing greater role to the private sector in the nation building process and reducing the role of public sector. It involves disinvestment of a part of shares held by the government and dereservation of areas, earlier reserved for public sector.

3. Globalisation

It means integrating various economies of the world into global economy. It means free movements of goods capital and labour across the global economy. Globalization is not a policy it is a fact or phenomenon.

Liberalization and privatization are policies. Globalization involves increased level of interaction and inter dependence among the various nations. Political boundaries no longer act as a barrier for business to serve a distant customer.

Impact of changes in government policy on business and industry

(New Industrial Policy)

1. Increasing competition

Liberal licensing and entry of foreign firms made competition for Indian firms.

2. More demanding customers

Customers have wider choice and they are well informed. Hence they have become more demanding.

3. Rapidly changing technological environment

Increased competition forced firms to develop new ways to survive in the market.

4.Necessity for Change

The market forces have become not stable as a result of which the business enterprise have to continuously modify their operations.

5.Need for developing human resources

The new market conditions require people with higher competence and greater commitment.

6.Market Orientation

There is shift in market orientation, as the firm has to study and analysis the market first and produce goods accordingly. (Customized production)

.....

The process by which an organization monitors its environment is called environment scanning.

Foreign trade balance- economic environment

Composition of family- social environment

Money supply in the economy – economic

Level of literacy – social

Disinvestment policy – economic

Labour law – legal

Growing consumerism – social

RBI reduced CRR – economic

RBI is a key regulator of the country's economic environmen

Laws - Legal