

## UNIT 3

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# BUSINESS ENVIRONMENT

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Business environment can be defined as those forces, individuals and institutions who have the ability to influence the working of an organisation.

### Features of Business Environment :

- (1) **Totality of external forces** : Business environment is the sum total of all the forces/factors external to a business firm.
- (2) **Specific and General forces** : Business environment includes both specific and general forces. Specific forces includes investors, competitors, customers etc who influence business firm directly while general forces includes social, political, economic, legal and technological conditions which affect a business firm indirectly.
- (3) **Inter-relatedness** : All the forces/factors of a business environment are closely interrelated.
- (4) **Dynamic** : Business environment is dynamic in nature which keeps on changing with the change in technology, consumers fashion and tastes etc.
- (5) **Uncertainty** : Business environment is uncertain as it is difficult to predict the future environmental changes and their impact.
- (6) **Complexity** : Business environment is complex which is easy to understand in parts separately but it is difficult to understand in totality.
- (7) **Relativity** : Business environment is a relative concept whose impact differ from country to country and region to region.

### IMPORTANCE OF BUSINESS ENVIRONMENT

1. **Identification of opportunities to get first mover advantage** : Understanding of business environment help an organisation in identifying advantageous opportunities and getting their benefits prior to competitors.

2. **Identification of threats** : Correct knowledge of business environment help an organisation to identify those threats which may adversely affect its operations.
3. **Tapping useful resources** : Business environment made available various resources such as capital, labour, machines, raw material etc to a business firm. In order to know the availability of resources and making them available on time knowledge of business environment is necessary.
4. **Coping with Rapid changes** : Continuous study/scanning of business environment help in knowing the changes which are taking place and thus they can be faced effectively.
5. **Assistance in planning and policy formulation** : Understanding and analysis of business environment help an organisation in planning & policy formulation.
6. **helps in Improving Performance** : Correct and continuous monitoring of business environment help an organisation in improving its performance.

## **DIMENSIONS / COMPONENTS OF BUSINESS ENVIRONMENT**

1. **Economic Environment** : It has immediate and direct impact on a business. Rate of interest, inflation rate, change in the income of people etc. are some economic factors which could affect business firms. Economic environment offers opportunities to a firm or it may put constraints.
2. **Social Environment** : It includes various social forces such as customs, beliefs, literacy rate, educational levels, lifestyle, values etc. Changes in social environment affect an organisation in the long run. Example : now a days people are paying more attention towards their health as a result of which demand for mineral water, diet coke etc has increased while demand of tobacco, fatty food products has decreased.
3. **Technological Environment** : It provides new and advance ways/ techniques of production. A businessman must closely monitor the technological changes taking place in the industry as it helps in facing competition and improving quality of the product.
4. **Political Environment** : Changes in political situation also affect business organisations. Political stability builds confidence among business community while political instability and bad law & order situation, may

bring uncertainty in business activities. Political environment has immediate and great impact on the business transactions, so the businessman must scan the environment carefully so that necessary changes can be made in the organisation as per requirements.

5. **Legal Environment** : It constitutes the laws and legislation passed by the Government, administrative orders, court judgements & decisions of various commissions and agencies. Businessman had to act according to various legislations and so their knowledge is very necessary.

### **Economic Reforms :**

As a part of Economic reforms, the Government of India announces new Industrial Policy in 1991, whose main features are as follows :

1. Only six industries were kept under licencing scheme.
2. The role of public sector was limited only to four industries.
3. Disinvestment was carried out in many public sector enterprises.
4. Foreign capital/investment policy was liberalised and in many sectors 100% direct foreign investment was allowed.
5. Automatic permission was given for signing technology agreements with foreign companies.
6. Foreign investment promotion board (FIPB) was setup to promote & bring foreign investment in India.

The main objective of New Industrial Policy was to promote Liberalization, Privatization and Globalization

**Liberalization** : Abolishing licensing requirements; Freedom in deciding the scale of business; removals of restriction on movements of goods and service; reduction in tax rates; freedom in fixing prices; simplifying procedures; making it easier to attract foreign investment.

**Privatization** : Giving greater role to private sector in the nation building process and reduced role of public sector; Disinvestment in many Public Sector undertaking etc.

**Globalization** : It means integration of various economies of the world leading to the emergence of cohesive global economy. The measures taken by the Government include trade liberalization which includes import liberalization; Export Promotion through rationalization of tariff structure; Foreign exchange liberalization; increased interaction among global economics under the aegis (protection/support) of World Trade Organization.

## IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY

1. **Increasing Competition** : Delicensing and entry of foreign firms in Indian market has increased the level of competition for Indian firms.
2. **More Demanding Customers** : Now customers are more aware and they keep maximum information of the market as the result of which now market are customer/buyer oriented. Now products are produced keeping in mind the demands of the customers.
3. **Rapid Changing Technological Environment** : Rapid Technological advancement has changed/improved the production process as a result of which maximum production is possible at minimum cost but it leads to tough challenges in front of small firms.
4. **Necessity for change** : After new industrial policy the market forces (demand & supply) are changing at a very fast rate. Changes in the various components of business environment has made it necessary for the business firms to modify their policies & operations from time to time.
4. **Need for Developing Human resources** : The changing market conditions of today require people with higher competence and greater commitment, hence the need for developing human resources arise, which could increase their effectiveness and efficiency.
5. **Market orientation** : Earlier selling concept was famous in the market but now its place is taken by the marketing concept. Today firms produces those goods & services which are required by the customers.
6. **Reduction in budgetary Support to Public Sector** : The budgetary support given by the government to the public sector is going on reducing and thus the public sector have to survive and grow by utilising their own resources efficiently.

### IMPORTANT QUESTIONS

#### 1 Mark Questions (To be answered in 1 word or 1 sentence)

1. Govt. of India is seriously thinking to allow oil marketing public sector undertaking to fix their own price for diesel. Which economic reform is the reason of this change in government's policy (Answer: Liberalization)

2. Just after declaration of Lok Sabha Elections 2009 results, the Bombay stock exchange's price index (Sensex) rose by 2100 points in a day. Identify the environmental factor which led to this rise. (Answer : Political Environment)
3. State any two impacts of change of government policy on business and industry.
4. The understanding of business environment helps the managers to identify threats . What is meant by threats here? (Answer: Threats refer to the external environment trends and changes that will hinder a firm's performance)
5. Business environment includes both specific and general forces. List any four specific forces. (Answer : Suppliers, investors, customers and competitors).
6. The understanding of business environment helps the managers to identify Opportunities . What is meant by Opportunities here? (Answer-Opportunities refer to positive changes and trends that will help the business to improve its performance.)
7. Business Environment includes both specific and general forces . List any four general forces. (Answer: Social, Economic, Political Legal and Technological).

**3/4 Marks Questions (To be answered in about 50 to 75 words)**

1. Explain any three features of Business Environment.
2. Explain any two impacts of Government policy changes on Business and Industry.
3. Explain Increasing Competition and More demanding customers as impact of Government policy changes on Business and Industry.

**5 Marks Questions (To be answered about 150 words)**

1. Identify the type of dimension of environment to which the following are related :
  - i) Banks reducing interest rate on housing loans.
  - ii) An increasing number of working women.
  - iii) Booking of air tickets through internet.
  - iv) Alcohol beverages are prohibited to be advertised on Door Darshan

**Answer :**

- i) Economic Environment,
  - ii) Social Environment
  - iii) Technological Environment
  - iv) Legal Environment
2. Explain the various dimensions of business environment.

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