



Business Studies Notes PDF

On

Business Environment

(Class - 12 / Chapter- 3)

MEANING OF BUSINESS ENVIRONMENT

Business environment refers to all the factors that are outside the control of the business enterprise but may equally affect the performance of the business. The social, political, economic, technological factors that operate outside a business forms a part of the business environment.

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 include investors, competitors, customers etc. who influence business firm directly while general forces include 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. For example, increased awareness of health care has raised the demand for organic food and roasted snacks.
- 4. Dynamic:** Business environment is dynamic in nature which keeps on changing with the change in technology, consumer's fashion and tastes etc.
- 5. Uncertainty:** Business environment is uncertain as it is difficult to predict the future environmental changes and their impact with full accuracy.
- 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 differs from country to country, region to region and firm to firm. For example, a shift of preference from soft drinks to juices will be welcomed as an opportunity by juice making companies while a threat to soft drink manufacturers.

Importance of Business Environment:

- (i) Environment Provides Numerous Opportunities for Business Success:** It enables the firm to identify opportunities and get the first mover advantage.
- (ii) Threats and Early Warning Signals:** Environmental awareness can help managers to identify various threats on time and serve as an early warning signal.
- (iii) It Helps in Tapping Useful Resources:** Environment is a source of various resources for running a business. Like finance, machines, raw materials etc.
- (iv) It Helps in Copying with Rapid Changes:** Knowledge of environmental changes sensitises the management to make new strategies to copy with the emerging problems of changes.
- (v) It Helps in Assisting in Planning and Policy Formulation:** Its understanding and analysis can be the basis for deciding the future course of action or training guidelines for decision making.
- (vi) It helps in Improving Performance:** With continuous scanning of the business environment, companies can easily improve their performance.

Dimensions in Business Environment:

1. Economic Environment: It refers to all those factors and forces that have an economic impact on the business activities. Key economic factors include inflation, money supply, price level, etc. For example, increase in inflation rates result in fall in disposable incomes and as a result the demand for products falls.

2. Social Environment: Social environment represents the customs and traditions, values, culture, social trends, beliefs, ethics of society in which business operate. For example, with greater awareness among consumers about their rights, businesses are more concerned about the quality of goods they sell.

3. Political Environment: It includes political stability such as political leadership, political stability, practices of the ruling party, etc. For example, change in government, or unstable government.

4. Legal Environment: It includes all the legislations passed, administrative orders issued, court judgments or decisions taken by government or its related offices. For example, all cigarette packets must carry a warning 'smoking is injurious to health'.

5. Technological Environment: It consists of forces relating to scientific improvements and innovations, which lead to better production techniques and methods to produce goods. For example, shift from books to e-books, telephones to touch screen mobile phones.

ECONOMIC ENVIRONMENT IN INDIA

As a part of economic reforms, the Government of India announced New Economic Policy in July 1991 for taking the country out of economic difficulty and speeding up the development of the country.

Main features of NEP, 1991 are as follows:

1. Only six industries were kept under licensing scheme.
2. The role of the public sector was limited only to four industries.
3. Disinvestment was carried out in many public sector enterprises.
4. Foreign capital/investment policy was liberalized 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.
7. Various benefits were offered to small scale industries.

LIBERALISATION

It means removing unnecessary trade restrictions and making the economy more competitive like freedom of production, expansion of industries.

The main objectives of introducing liberalisation were:

- To restrict licensing requirements to only a few core industries.
- To remove all restrictions related to scale of operation expansion or contraction of business activities.
- To remove restrictions on the movement of goods and services.
- To provide freedom to fix prices.
- To reduce tax rates and remove unnecessary control.
- To allow import of foreign capital and technology.
- To simplify the procedures of import and export.

PRIVATISATION

It means removing strict control over the private sector and making them free to make necessary decisions. Like a reduction in the number of reserved public sector industries, increasing the share of private sector investment.

Objectives:

- To introduce plant disinvestment of the public sector.
- Dilute the ownership stake in public sector companies to less than 51%.
- Establishment of the Board of Industrial and Financial Reconstruction to evaluate the loss making and sick enterprises.
- Disinvestment, that means to transfer the ownership from the public sector to the private sector.

GLOBALISATION

Free interaction among economies of the world in the field of trade, finance, production, technologies and investment is termed as globalisation. Our new economic policy contributed towards globalisation in the following ways.

- (a) Devaluation of rupee
- (b) Raising foreign equity participation
- (c) Long period trade policy
- (d) Convertability of rupee

DIMENSIONS/COMPONENTS OF BUSINESS ENVIRONMENT

1. Economic Environment: It has immediate and direct economic impact on a business. Rate of interest, inflation rate, change in the income of people, monetary policy, price level etc. are some economic factors which could affect business firms. Economic environment may offer 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 the social environment affect an organization in the long run. Example: Nowadays people are paying more attention towards their health, as a result of which demand for mineral water, diet coke etc. has increased while demand for tobacco, fatty food products has decreased.

3. Technological Environment: It provides new and advanced 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. For Example, Digital watches in place of traditional watches, artificial fabrics in place of traditional cotton and silk fabrics, booking of railway tickets on internet etc.

4. Political Environment: Changes in political situations also affect business organizations. Political stability builds confidence among the business community while political instability and bad law & order situation may bring uncertainty in business activities. Ideology of the political party, attitude of government towards business, type of government-single party or coalition government affects the business Example: Bangalore and Hyderabad have become the most popular locations for IT due to supportive political climate.

5. Legal Environment: It constitutes the laws and legislations passed by the Government, administrative orders, court judgments, decisions of various commissions and agencies. Businessmen have to act according to various legislations and their knowledge is very necessary. Example: Advertisement of Alcoholic products is prohibited and it is compulsory to give statutory warning on advertisement of cigarettes.

IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY

- (i) Increasing Competition:** There is a tough competition between multinationals and there is also competitions between Indian enterprises and foreign enterprises.
- (ii) More Demanding Customers:** Customers today become more demanding because they are well-informed.
- (iii) World Class Technology:** Changes in government policy regarding business and industry has provided us with world class technology.
- (iv) Necessity for Change:** After 1991, the market forces have become turbulent as a result of which the enterprises have to continuously modify their operations.
- (v) Need for Developing Human Resource:** The new market conditions require people with higher competence and greater commitment.
- (vi) Market Orientation:** Today firms are market oriented. They research the market, need and wants of consumers and then they produce well accordingly.
- (vii) Loss of Budgetary Support to Public Sectors:** The government's budgetary support for financing the public sector has declined over the years.

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