

Meaning of Business Environment

Business environment refers to forces and institutions outside the firm with which its members must deal to achieve the organisational purposes. Here

- Forces = economical, social, political, technological etc**
- Institutions = suppliers, customers, competitors etc**

Meaning of Business Environment

It includes all those constraints and forces external to a business within which it operates. therefore,

- The firm must be aware of these external forces and institutions and**
- The firm must be nagged keeping in mind these forces and institutions so that the organisational objectives are achieved.**

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.

Features of Business Environment

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.

Features of Business Environment

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.

Features of Business Environment

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

1. Identification of opportunities to get first mover

advantage: Understanding of business environment helps an organization in identifying advantageous opportunities and getting their benefits prior to competitors, thus reaping the benefits of being a pioneer.

IMPORTANCE OF BUSINESS ENVIRONMENT

2. Identification of threats: Correct knowledge of business environment helps an organization to identify those threats which may adversely affect its operations. For example, Bajaj Auto made considerable improvements in its two wheelers when Honda & other companies entered the auto industry.

IMPORTANCE OF BUSINESS ENVIRONMENT

3. Tapping useful resources: Business environment makes 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 at economical price, knowledge of business environment is necessary.

IMPORTANCE OF BUSINESS ENVIRONMENT

4. Coping with Rapid changes: Continuous study/scanning of business environment helps 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 helps an organization in planning & policy formulation. For example, ITC Hotels planned new hotels in India after observing boom in tourism sector.

IMPORTANCE OF BUSINESS ENVIRONMENT

Helps in Improving performance: Correct analysis and continuous monitoring of business environment helps an organization in improving its performance.

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

IMPORTANCE OF BUSINESS ENVIRONMENT

Main features of NEP, 1991 are as follows:

- 1. Only six industries were kept under licensing 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 liberalized and in many sectors 100% direct foreign investment was allowed.**

IMPORTANCE OF BUSINESS ENVIRONMENT

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.

The three main strategies adopted for the above may be defined as follows:

1. Globalisation:

- Integrating the economy of a country with the economies of other countries to facilitate freer flow of trade, capital, persons and technology across borders. It leads to the emergence of a cohesive global economy.**

The three main strategies adopted for the above may be defined as follows:

- **Till 1991, the Government of India had followed a policy of strictly regulating imports in value and volume terms. These regulations were with respect to (a) licensing of imports, (b) tariff restrictions and (c) quantitative restrictions.**
- **NEP '91 advocated rapid advancement in technology and directed trade liberalization towards:**

The three main strategies adopted for the above may be defined as follows:

a. Import Liberalisation

b. Export promotion towards rationalization of the tariff structure and

c. Reforms w.r.t foreign exchange

2. Liberalisation:

Liberalising the Indian business and industry from all unnecessary controls and restrictions. That is relaxing rules and regulations which restrict the growth of the private sector and allowing the private sector to take part in economic activities that were earlier reserved for the government sector. The steps taken for this were:

2. Liberalisation:

- a. Abolishing licensing**
- b. Freedom in deciding the scale of operations**
- c. Removal of restrictions on movement of goods and services.**
- d. Freedom in fixing prices.**
- e. Reduction in tax rates and unnecessary controls**
- f. Simplifying procedures for import and exports**
- g. Making it easy to attract foreign capital.**

3. Privatization:

- **Refers to the reduction of the role of the public sector in the economy of a country.**
- **Transfer of ownership and control from the private to the public sector (disinvestment) can be done by :**
 - a. Sale of all/some assets of the public sector enterprises.**
 - b. Leasing of public enterprises to the private sector.**
 - c. Transfer of management of the public enterprise to the private sector.**

3. Privatization:

- **To achieve privatization in India, the government redefined the role of the public sector and –**

- a. Adopted a policy of planned disinvestment of the public sector**

- b. Refer the loss making and sick units to the Board of Industrial and Financial Reconstruction (BIFR)**

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.

DIMENSIONS/COMPONENTS OF BUSINESS ENVIRONMENT

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 organization 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.

DIMENSIONS/COMPONENTS OF BUSINESS ENVIRONMENT

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. 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.

DIMENSIONS/COMPONENTS OF BUSINESS ENVIRONMENT

4. Political Environment: Changes in political situation also affect business organizations. Political stability builds confidence among 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.

DIMENSIONS/COMPONENTS OF BUSINESS ENVIRONMENT

5. Legal Environment: It constitutes the laws and legislations passed by the Government, administrative orders, court judgements, 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.

MAJOR STEPS IN ECONOMIC FORMS

1. New Industrial Policy – Under this the industries have been freed to a large extent from licences and other controls. Efforts have been made to encourage foreign investment.

2. New Trade Policy – The Foreign trade has been freed from the unnecessary control. The age old restrictions have been eliminated.

3. Fiscal Reforms. The greatest problem confronting the Indian Govt. is excessive fiscal deficit.

MAJOR STEPS IN ECONOMIC FORMS

(a) Fiscal Deficit – It means country is spending more than its income

(b) Gross Domestic Product (GDP) – It is the sum total of the financial value of all goods & services produced in a year in a country.

4. Monetary Reform – It is a sort of control policy through which the central bank controls the supply of money with a view to achieving objectives of general economic policy.

MAJOR STEPS IN ECONOMIC FORMS

5. Capital Market Reforms- The Govt. has taken the following steps for the development of this market:

(1) SEBI has been established.

(2) The restriction in respect of interest on debentures has been lifted.

(3) Private Sector has been permitted to establish Mutual Fund.

MAJOR STEPS IN ECONOMIC FORMS

6. Dismantling Price control –

The govt. has taken steps to remove price control in many products especially in fertilizers, iron and steel, petro products. Restrictions on the import of these things have also been removed.

IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY

1. Increasing Competition: De-licencing and entry of foreign firms Indian market is 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 is customer/buyer oriented, Now, products are produced keeping in mind the demands of the customers.

IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY

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.

IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY

4. Necessity for Change- After New Industrial. Policy the market forces (demand & supply) are changing at a very fast rate. Change in the various components of business environment has made it necessary for the business firms to modify their policies & operations from time to time.

IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY

5. Need for Developing Human Resources: The changing market conditions of today requires people with higher competence and greater commitment, hence there is a need for developing human resources which could increase their effectiveness and efficiency.

IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY

6. Market Orientation: Earlier selling concept was famous in the market now its place is taken by the marketing concept. Today firms produce those goods & services which are required by the customers. Marketing research, educational advertising, after sales services have become more significant.

IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY

7. Reduction in budgetary

Support to Public Sector: The budgetary support given by the government to the public sector is reducing thus the public sector has to survive and grow by utilising their own resources efficiently.

Short Answer Type Questions

Short Answer Type Questions

1. What do you understand by business environment?

Ans: 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 that may affect its performance. The economic, social, political, technological and other forces, which operate outside the business enterprise are part of its environment.

Short Answer Type Questions

2. Why it is important for business enterprises to understand their environment? Explain briefly.

Ans: It is important for business organisations to understand their environment because of the following reasons.

Short Answer Type Questions

(i) It Enables the Firm to Identify Opportunities and Getting the First Mover Advantage Environment provide numerous opportunities for business. Early identification of opportunities helps an enterprise to use it before instead of losing them to competitors.

(ii) It Helps the Firm to Identify Threats and Early Warning Signals Environmental awareness can help managers to identify various threats on time and serve as an early warning signals.

Short Answer Type Questions

(iii) It Helps in Tapping Useful Resources Environment is a source of various resources for running a business. To engage in any type of activity, a business enterprise assembles various resources called inputs. This can be done better by understanding what the environment has to offer.

Short Answer Type Questions

(iv) It Helps in Coping with Rapid Changes All types of enterprises facing increasingly dynamic environment. In order to effectively cope with these significant changes, managers must understand and examine the environment and develop suitable courses of action.

Short Answer Type Questions

(v) It Helps in Assisting in Planning and Policy Formulation Since environment is the source of opportunities and threats, its understanding and analysis becomes the base for various policies to be framed and strategies to be made.

(vi) It Helps in Improving Performance The enterprises that continuously monitor their environment and adopt suitable business practices are the ones, which not only improve their present performance but also continue to succeed in the market for a longer period.

Short Answer Type Questions

Q3. Mention the various dimensions of business environment.

Ans:

(i) Economic Environment Interest rates, inflation rates, value of rupee and many more are the economic factors that can affect management practices in a business enterprise.

(ii) Social Environment The social environment of business includes the social forces like customs and traditions, values, social trends etc.

Short Answer Type Questions

(iii) Technological Environment This 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.

(iv) Political Environment This includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business.

Short Answer Type Questions

(v) Legal Environment This includes various legislations passed by government authorities and court judgements. It is important for the management of every enterprise to obey the law of land and for this, enough of knowledge of rules, and regulations framed by the government is a pre-requisite for better performance.

Short Answer Type Questions

4. Briefly explain the following

(a) Liberalisation

(b) Privatisation

(c) Globalisation

Ans: The three important features of New Economic Policy, 1991

(a) Liberalisation Under the new economic policy of 1991, the economic reforms that were introduced aimed at liberalising the Indian business and industry from all unnecessary controls and restrictions. They signalled the end of the licence-permit quota raj.

Short Answer Type Questions

(b) Privatisation The new set of economic reforms that aim at giving greater role to the private sector in the nation building process and a reduced role to the public sector.

(c) Globalisation Globalisation means the integration of the various economies of the world leading towards the emergence of a cohesive global economy. Till 1991, India had a policy which strictly regulated imports in value and volume terms. After 1991, the reforms aimed at import liberalisation.

Short Answer Type Questions

5. Briefly discuss the impact of Government policy changes on business and industry.

Ans: Impact of Government policy changes on business and industry

(i) Increasing Competition As a result of liberalisation, privatisation and globalisation number of players increased in all sectors and increased competition for everyone.

Short Answer Type Questions

(ii) More Demanding Customers

Increased competition in the market gives the customer wider choices in purchasing better quality of goods and services, which makes them more demanding.

(iii) Rapidly Changing

Technological Environment New technologies help to improve machines, process products and services. The rapidly changing technological environment creates tough challenges before smaller firms.

Short Answer Type Questions

(iv) Necessity for Change After 1991, the market forces have become turbulent as a result of which the enterprises have to continuously modifying their operations.

(v) Need for Developing Human Resource The new market conditions require people with higher competence and greater commitment. Hence, the need for developing human resources emerged.

Short Answer Type Questions

(vi) Market Orientation Earlier, production was taken up first and then selling was done. Now, due to increasing competition and more demanding customers firms have to study and analyse the market first and produce goods accordingly.

(vii) Loss of Budgetary Support to the Public Sector Public sector have less of budgetary support from the Central Government. Now, they have to generate their own resources and be more efficient in order to survive and grow.

Long Answer Type Questions

Long Answer Type Questions

1. How would you characterise business environment? Explain with examples, the difference between general and specific environment.
Ans: Features of business environment

(i) Totality of External Forces Business environment is aggregative in nature as it is the sum total of all things external to business firms.

Long Answer Type Questions

(ii) Inter-relatedness Different elements of business environment are closely related to each other, e.g., increased awareness of health care have increased the demand for many health products.

(iii) Dynamic Nature The business environment is highly dynamic. It keeps on changing. Sometimes there is a change in technology, tastes and preference of consumer etc.

Long Answer Type Questions

(iv) Uncertainty The environment cannot be predicted. It is highly uncertain and unpredictable.

(v) Complexity Since there are many elements of business. Environment and they are inter-related and dynamic in nature. Therefore, it becomes very difficult to understand them as a whole.

Long Answer Type Questions

Difference between Specific and General Environment There are two types of forces operating in business environment specific and general. Specific forces affect the individual enterprises directly and immediately, e.g., customers, suppliers. General forces affect the firms and only indirectly e.g., social conditions or political conditions.

Long Answer Type Questions

2. How would you argue that the success of a business enterprise is significantly influenced by its environment?

Ans: Importance of business environment

(i) It Enables the firm to Identify Opportunities and Getting the First Mover Advantage

Environment provides numerous opportunities for business success. Early identification of opportunities helps an enterprise to be the first to exploit them instead of losing them to competitors, e.g., Eureka Forbes introduced Aquaguard and took away the cream of demand.

Long Answer Type Questions

(ii) It Helps the Firm to Identify Threats and Early Warning Signals Environment happens to be the source of many threats. Environmental awareness can help managers to identify various threats on time and serve as an early warning signals e.g., Lakme took serious steps to improve the quality and types of products as foreign multinational cosmetics companies started coming to India after 1991.

Long Answer Type Questions

(iii) It Helps in Tapping Useful Resources Environment offers various resources for running a business in return the business enterprise supplies the environment with its outputs such as goods and services for customers, taxes for government. In order to arrange for the best possible resources, better understanding of the environment becomes important.

Long Answer Type Questions

(iv) It Helps in Coping with Rapid Changes It is not the fact of change itself that is so important as the pace of change. There are many changes taking place in the environment and at a fast speed. In order to effectively cope with these changes, managers must understand and examine the environment and develop suitable courses of action.

Long Answer Type Questions

(v) It Helps in Assisting in Planning and Policy Formulation Since environment is a source of both opportunities and threats, its understanding and analysis only helps in formulating the best possible policies to handle the future properly.

(vi) It Helps in Improving Performance Continuous monitoring and adopting changes in an enterprise will help in improving not only their present performance, but also continue to succeed in the market in long run.

Long Answer Type Questions

3. Explain with examples, the various dimensions of business environment.

Ans: Dimension of business environment

(i) Economic Environment It includes the changes in the system due to economic policies made by the government. Reserve Bank of India is the key regulator of country's economic environment since it

Long Answer Type Questions

- (a) influences the interest rates**
- (b) controls the flow of money in the economy**
- (c) regulates the working of banks**

Example When the banks reduce the interest rates on long term loans, automobiles and construction industries get a boost to the business as more spending is made on the purchase of homes and cars through loans.

Long Answer Type Questions

(ii) Social Environment

The social environment of business include the social forces like customs and traditions, values, social trends, society's expectations from business etc. In business terms, these values translate into freedom of choice in the market. Major elements of social environment are

(a) life expectancy

(b) shifts in the presence of women in the workforce

(c) consumption habits

Long Answer Type Questions

Example Due to the shift in the presence of women in the workforce, the demand for readymade ladies formal wear, cosmetics, packed/processed food, electronic gadgets has gone up.

(iii) Technological Environment

Technological environment 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.

Long Answer Type Questions

Example Because of technological advancement, it has become possible to book railway tickets through internet from home, office etc.

(iv) Political Environment

Political environment includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business. It is only of use when a business enterprise can predict its business activities under stable political conditions.

Long Answer Type Questions

Major elements of political environment are

- (a) The constitution of the country**
- (b) The nature and profile of political leadership and thinking of political personalities**
- (c) Political ideology and practices of the ruling party.**

Example After the NEP of 1991, due to globalisation the foreign companies started coming to India, but due to the bureaucratic red tape it became difficult for them to cut through it to do business here.

Long Answer Type Questions

As a result, these companies were discouraged in our country regarding investments. The situation has improved overtime.

(v) Legal Environment

Legal environment includes various legislations passed by the Government administrative orders issued by government authorities, court judgements as well as the decisions rendered by various commissions and agencies. It is imperative for the management of every enterprise to obey the law of the land.

Long Answer Type Questions

Therefore, an adequate knowledge of rules and regulations framed by the government is a pre-requisite for better business performance.

Example There is a government regulation to protect consumer's interest e.g., the advertisements of alcoholic beverages is prohibited.

Long Answer Type Questions

4. What economic changes were initiated by the Government under the Industrial Policy, 1991? What impact have these changes made on business and industry?

Ans: Economic changes initiated by the government under the Industrial Policy, 1991

(i) The government reduced the number of industries under compulsory licensing to six.

(ii) The role of public sector was reduced. It was now limited only to four industries of strategic importance.

Long Answer Type Questions

(iii) Disinvestment was carried out in case of many public sector industrial enterprises.

(iv) Foreign Direct Investment was permitted.

(v) Automatic permission was now granted for technology agreements with foreign companies.

(vi) Foreign Investment Promotion Board (FIPB) was set up to promote and channelise foreign investment in India.

Long Answer Type Questions

The Indian corporate sector has come face-to-face with several challenges due to government policy changes. Some of them are

(i) Increasing Competition The competition has increased due to entry of new players (privatisation and globalisation).

(ii) More Demanding Customers Customers today, has become more demanding because they are well-informed. Increased competition in the market gives the customers wider choice in purchasing better quality of goods and services.

Long Answer Type Questions

(iii) Rapidly Changes

Technological Environment The rapidly changing technological environment creates tough challenges before smaller firms.

(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.

Long Answer Type Questions

(v) Need for Developing Human Resources Earlier, Indian enterprises worked with inadequately trained personnel. The new market conditions require people with higher competence and greater commitment. Hence, the need for developing human resources.

Long Answer Type Questions

(vi) Market Orientation Before 1991, all firms worked with production oriented marketing operations. In a fast changing world, there was a shift to market orientation. The firms had to study and analyse the market first and produce goods accordingly.

(vii) Loss of Budgetary Support to the Public Sector The public sector undertakings have realised that in order to survive and grow, they will have to be more efficient and generate their own resources for the purpose.

Long Answer Type Questions

5. What are the essential features of

(a) Liberalisation

(b) Privatisation

(c) Globalisation

Ans: Ans Essential features of

(a) Liberalisation

(i) Abolishing licensing requirements in most of the industries except a short list.

(ii) No restriction on expansion or contraction of business.

(iii) Free movement of goods and services.

Long Answer Type Questions

(iv) Freedom in fixing the prices of goods and services.

(v) Reduction in tax rates.

(vi) Simplifying procedures for imports and exports.

(vii) Making it easier to attract foreign capital and technology to India.

(b) Privatisation

(i) The government redefined the role of public sector.

(ii) Policy of planned disinvestments of the public sector.

Long Answer Type Questions

(iii) Refining of sick enterprises to the Board of Industrial and Financial Reconstruction.

(c) Globalisation

(i) Import liberalisation

(ii) Export promotion

(iii) Foreign exchange reforms