

CHAPTER - 3

BUSINESS ENVIRONMENT

Concept- Meaning

Business environment means the sum total of the factors which influence the business and over which the business has no control. The study of business environment enables the managers to identify threats and opportunities.

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 influence business firm directly while general forces affect a business firm indirectly.
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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 in turn change the life style of people.

4. Dynamic: Business environment is dynamic in nature which keeps on changing with time. It may be change in technology, 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, demand for ready to eat healthy food will be more in urban areas than in rural areas.

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.
2. Identification of threats and early warning signals: 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 multinational companies entered the auto industry.
3. Tapping useful resources: Business environment makes available various resources such as capital, labor, 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.
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 by developing suitable course of action.
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.
6. Helps in improving performance: Correct analysis and continuous monitoring of business environment not only helps an organization in

improving its performance but also continue to succeed in the market for longer time.

EXPLAIN DIMENSIONS/COMPONENTS OF BUSINESS ENVIRONMENT

1. Economic Environment: It represents the nature of an economy, its policy, systems and all those forces that have bearing on business activities like. 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.

Examples:

- Decline in tax rates raises the disposable income of people leading to increase in demand for products.
- Rise in inflation increases the cost of raw material, machine, payment of wages and salaries.
- Demonetization implemented by RBI.
- Changes in economic and fiscal policies have encouraged NRI's and foreign investors to invest in India.
- The banks offering loans at reasonable interest rates with minimum required formalities because of banking sector reforms.

2. Social Environment: It includes various social forces such as customs, beliefs, literacy rates, educational levels, lifestyle, values etc. Changes in social environment affect an organization in the long run.

Example: Now a day's 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.

Examples :

- Festivals like Diwali, Eid, Christmas, etc. lead to increase in demand for greeting cards, sweets, gifts etc.

- Equal pay/pay scales to male and female workers for equal work
- Demand for reservation in jobs for minority and women.
- 'Beti Padhao, Beti Bachao' movement started for encouraging education of girl child.

3. Technological Environment: It implies using 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, booking of railway tickets on internet etc.

Examples :

- Payments through e-wallets, PayTm etc.
- Change from fountain pens to ball pens.
- Dematerialization of securities.
- Cable TV adversely affected radio industry.
- Introduction of artificial intelligence, like Siri in iPhones.

4. Political Environment: It includes political conditions and factors related to government affairs and their impact on business. 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.

Examples:

- Crash in share prices due to change in Vajpayee government in 1999.

- PM's frequent visit to foreign countries for promoting business relationships.
- Hyderabad has become the IT hub due to political support.
- Compensation given by government for acquiring property for building infrastructure facilities, like metro construction.
- GST introduced and implemented in place of VAT.

5. Legal Environment: It constitutes the laws and legislations passed by the Government, administrative orders, court judgements, decisions of various commissions and agencies. Example: Advertisement of Alcoholic products is prohibited and it is compulsory to give statutory warning on advertisement of cigarettes.

Examples :

- Supreme Court issuing orders to seal unauthorized shops and constructions.
- Law ensuring green dot for every vegetarian eatable products and red dot for non-vegetarian products.
- Supreme Court passing an order to close the iron factories around Taj Mahal to avoid air pollution affecting it.

Economic Environment in India

As a part of economic reforms, the Government of India announced New Economic Policy in July 1991. This policy has sought to liberate industry from restrictions of licensing system drastically reduce the interference of government.

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

1. Liberalization: It means freeing of Indian Industry from all unnecessary government controls and restrictions. 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.
2. Privatization: Giving greater role to private sector in the nation building process and reduced role of public sector; Disinvestment in many Public Sector undertaking which would result in converting public sector undertakings to private sector hence diluting government ownership by and 51%. It aimed at improving efficiency and performance of government undertakings, reducing budgetary deficit & better utilization of national resources.
3. 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 economies under the aegis (protection/support) of World Trade Organization. It resulted in addition of Export duty, Reduction of import.

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