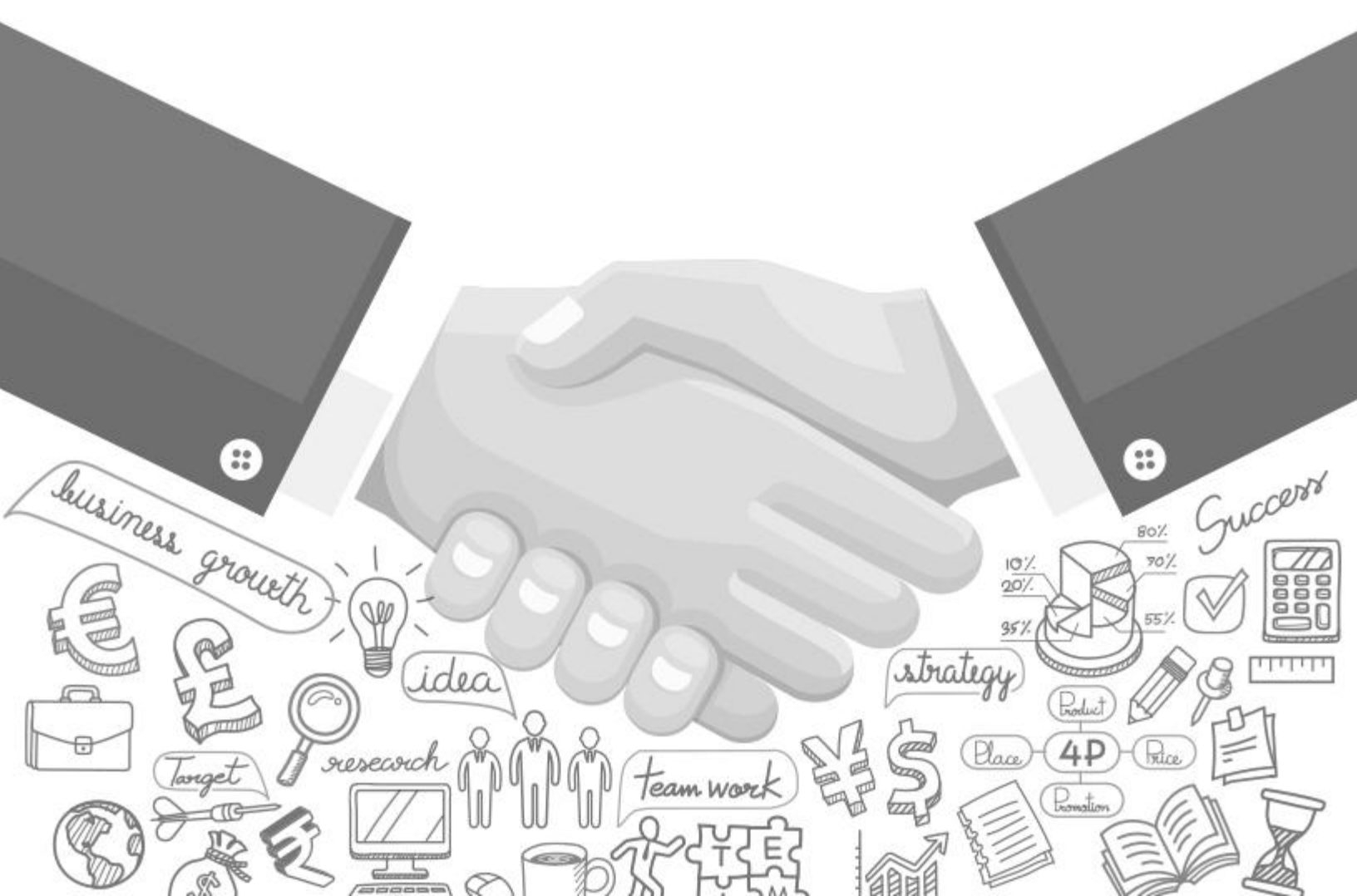


BUSINESS STUDIES



Business Environment

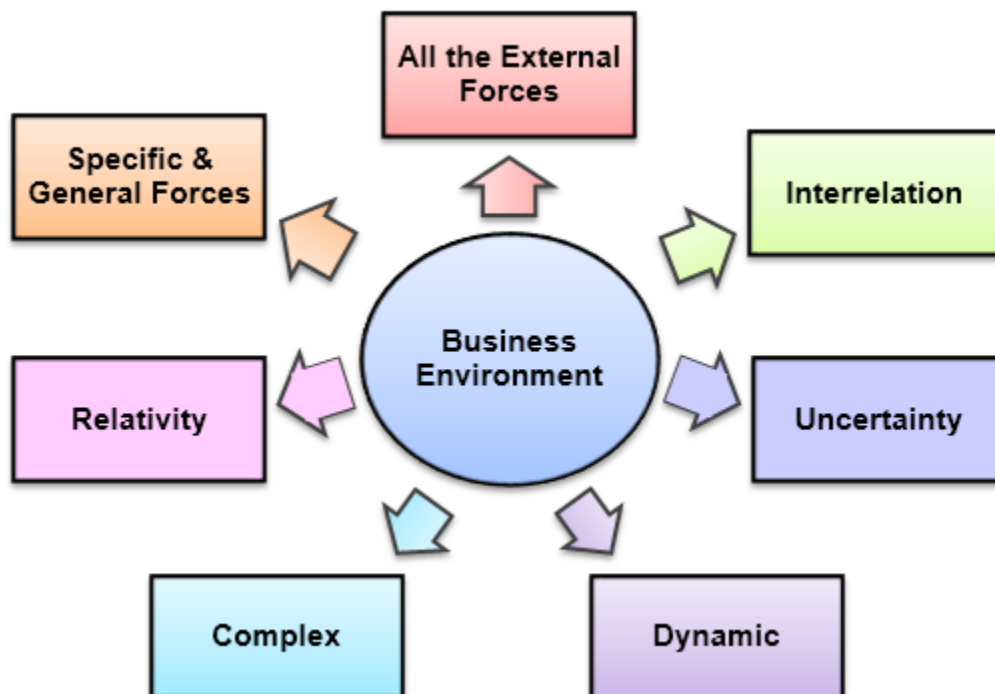
Topics Covered

- ✚ Concept of business environment
- ✚ Importance and dimensions of business environment
- ✚ Demonetisation: Concept and changes
- ✚ Three major components of New Economic Policy, 1991
- ✚ Impact of government policy changes on business

Concept of Business Environment

- An environment, within which the **business has to operate, needs to be understood** for its successful running at any point of time.
- A business environment refers to the **aggregate of external conditions, events and resources** which are **outside the control of a business** but interacts with it and affects its performance.
- *For example*, change in taste and preferences of consumers, change in government policies, change in political scenario, change in legal polices, all make up the business environment.
- In other words, everything which is **outside the purview of an organisation but affects its performance composes the business environment**.
- Some factors have **direct influence and some have indirect influence on the business**.
- The business environment comprises the **economic, social, technological, political and legal environment** which are considered significant for improving the performance and decision making of a firm.

Characteristics of Business Environment







- 1) **Aggregate of external forces:** Business environment can be considered the **aggregate sum of the external forces such as individuals, consumers, government and legal matters** which affect the performance of an organisation, either positively or negatively.
- 2) **Interrelation:** Different forces and factors such as legal, technological, political and social conditions of business environment are **closely related to each other**. For example, an increase in the income of consumers increases the demand for consumer durables such as televisions and refrigerators. Thus, a change in one factor affects the other factor.
- 3) **Dynamic in nature:** Being **a mixture of numerous forces and factors**, changes are bound to happen in a business environment. Any business should cope with the dynamic nature of an environment. For example, the tastes and preferences of a consumer, technology, government rules and policies keep changing continuously; therefore, a business must be well-equipped to adapt to a dynamic business environment.
- 4) **Uncertainty:** Being dynamic in nature, a business environment can easily be termed uncertain. **Predicting future changes is difficult** as these changes happen too quickly; for example, technical changes.
- 5) **Complexity:** Variable dynamic forces arising from different sources constitute a business environment. All political, social, economic, technological and legal matters affect the performance of the organisation simultaneously. Hence, it becomes **difficult and complex to understand their cumulative effect**.
- 6) **Relative:** The business environment has a different impact on every organisation. This is because it comprises factors which **differ from region to region**. Hence, the business environment is said to be highly relative in nature. For example, political conditions, religious beliefs, government rules and policies differ from one region to another.
- 7) **Specific and general forces:**
 - Specific forces like investors, customers, competitors etc. **exist outside an organisation, and the organisation has to interact with these forces during its daily operations**. These forces have a **direct and immediate effect** on the decisions and actions of an organisation.
 - General forces refer to **external forces which exhibit broad trends and conditions affecting all organisations**. Unlike specific forces, general forces do not pertain to a particular organisation, rather they **affect the performance of all organisations**. Thus, such forces affect a particular organisation only indirectly. The major elements such as legal, political, economic and socio-culture affect an organisation in their long run.

Importance of Business Environment

- Close and continuous interaction takes place between an **organisation and its environment**.
- Organisations, just like human beings, cannot operate or work in isolation. An organisation is **born, survives and grows within the context and forces of the environment** such as social and political conditions and technological changes.
- A **continuous study** of the business environment enables an organisation to **identify the forces and has a far-reaching impact on its survival**. This affects its functioning, and the organisation can respond to these forces in an appropriate manner.
- The following points highlight the importance of the environment for the **success of a business organisation**:

1) Identification of opportunities and	<ul style="list-style-type: none"> • The business environment is ever evolving. An interaction with the environment and careful analysis will help a business identify
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<p>threats</p>	<p>positive opportunities and possible threats.</p> <ul style="list-style-type: none"> • An identification of the threats can enable the organisation to take appropriate measures such as improving the quality and features of its mobile advertising. • It enables the organisation to grab these opportunities, gain maximum benefit and move ahead of its competitors. • <i>For example, Tata recognised the demand for a small and economical car in India, and thereby launched the popular Tata Nano at a price of just one lakh. Thus, it became the leader in low-cost cars in India.</i> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  <p>Maximum benefits capture a big share in the market</p> </div> <div style="text-align: center;">  <p>Nano: Low-cost car</p> </div> </div>
<p>2) Accumulating useful resources</p>	<ul style="list-style-type: none"> • The environment offers itself as a source of inputs such as raw material, machinery and labour for the running of an organisation. • In return, the business supplies the environment with its output. This is possible only if the enterprises have an understanding of what the environment desires and what it can offer. A business that understands and interprets the market well has the maximum chance of gaining benefit. • Thus, it is rational for the organisations to take up those resources from the environment which can be converted to the desired output. • <i>For example, with a rise in demand for touchscreen technology in mobile phones, manufacturers are accumulating resources required for manufacturing touchscreen phones.</i> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  </div> <div style="text-align: center;">  </div> </div> <p style="text-align: center;">Acquiring raw materials</p>

3) Adjusting to changes

- Business environment is dynamic in nature and is **prone to numerous socio-economic changes**.
- A **careful analysis and understanding of the environment** helps an enterprise in adapting with these changes and in taking timely actions.
- For example, by a study of the business environment, many bakery enterprises have realised the **growing demand for sugar-free products** and are increasing the production of such bakery products.
- Similarly, there is a move from milk tea towards green tea.



Changes to match the external environment

4) Formulating plans and policies

- Understanding and analysing opportunities and threats help a **business frame suitable plans and policies in view of the current scenario**.
- For example, if on analysis it is found that there is an increasing demand for western wear, then a clothes manufacturing company can **frame policies and strategies to incorporate western wear in its production**.



Strategies to incorporate western wear

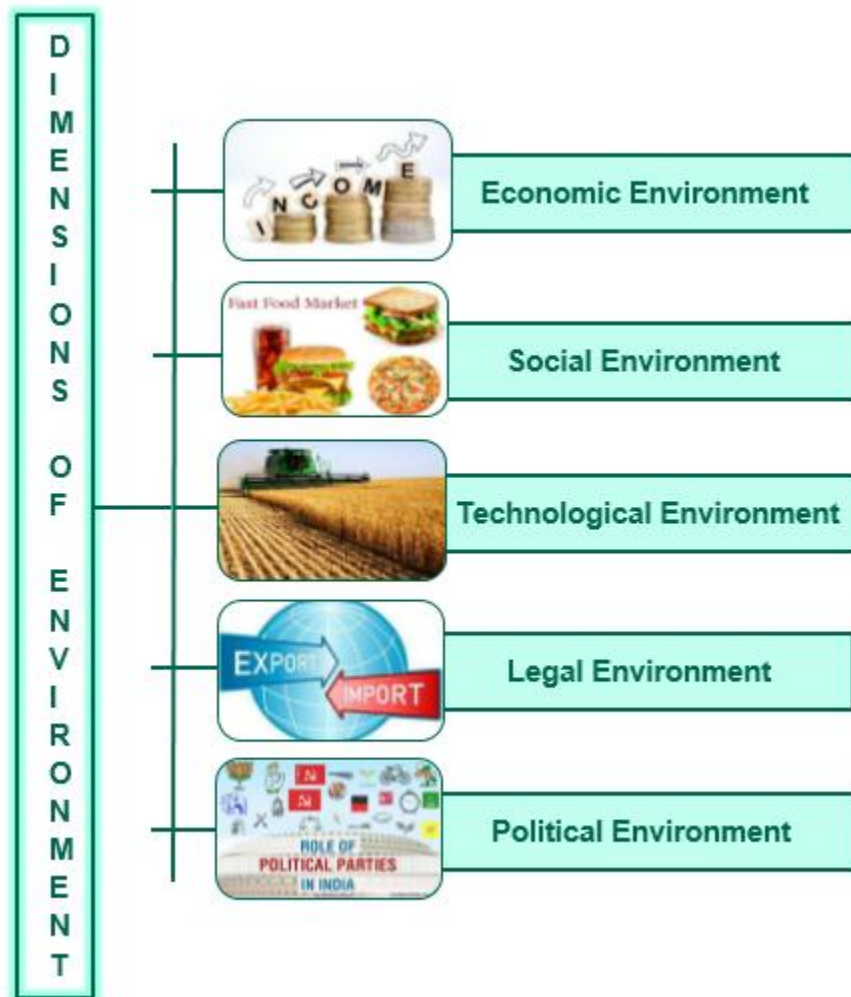
5) Improving performance

- The main aim behind analysing and understanding the environment is **to improve a firm's performance and efficiency**.
- The future of an organisation depends on how **closely it bonds with the environment** and **thrives to survive** its ever **changing policies**.



With the changing environment, LG and Videocon competed successfully by understanding the environment

Dimensions of Business Environment



1) Economic Environment

- Factors such as **unemployment rates, stock market indices, inflation rate and interest rate within which a business conducts and operates its working**, points to the general condition of the economy. All these factors constitute the economic environment.
- Because these factors have a **direct impact on the business**, a businessman should scan the economic environment and **take timely actions to deal with it**.
- For example, an **increase in the consumer's income** increases the demand for goods and services of the enterprises. Similarly, a fall in the **interest rates for loans** for consumer durables increases the spending capacity and thereby increases the demand for such products.

2) Social Environment

- A business originates and develops in a society, and therefore, the effect of social factors is anything but natural.
- Social environment implies the **nature of the lifestyle, customs, literacy rates, traditions, social trends, educational level** and other characteristics of society. These factors cannot be overlooked as they do have an **impact on society in the long run**.
- Social traditions and practices such as **religious celebrations** provide significant business opportunities to many enterprises such as those **producing sweets, decoration items and greeting cards**.

- Any change in the social environment affects the **supply of capital, labour and demand of the product**.
- A business booms or survives only when there is **cooperation between the business and the society**.
- For example, in India, there has been a change in social trends towards **western lifestyle** which has increased the demand for western wear and fast food.

3) Technological Environment

- The nature of **technology available and used by the economy** or production house falls under the technological environment.
- 1. It also comprises **any technological changes and improvements to improve the quality of product or services** which may also get reflected in factors such as expenditure on R&D and rate of obsolescence.
- Any **new scientific improvements, new procedures or techniques for improving the quality of services and goods** facilitates a firm's effectiveness and efficiency to survive in the competing world.
- For example, computers and the internet have changed the way organisations work today. While, on one hand, **improvement in technology provides new business opportunities** for enterprises, on the other hand, it is a **threat for enterprises using obsolete technology**.

4) Legal Environment

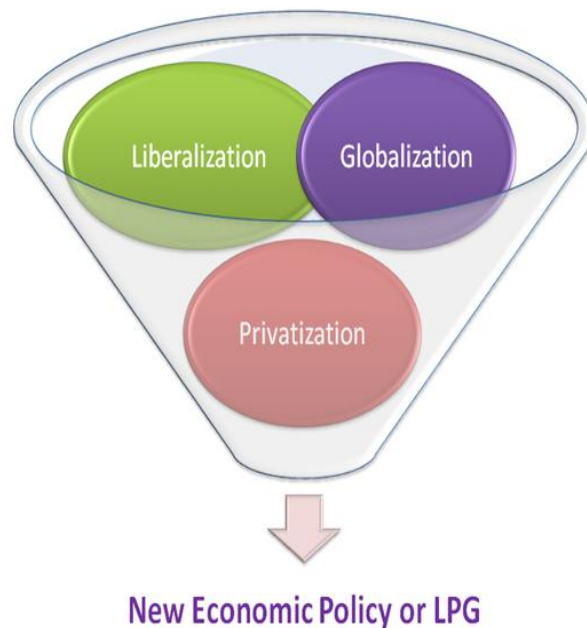
- It refers to the **legislation and rules framework impacting the business**.
- These laws relate to **consumer protection, joint stock companies, employment relation and health and safety**.
- Acts are framed by the Parliament and passed by the government such as the *Companies Act, 2013, Industries Dispute Act, 1947, and Trade Unions Act, 1926*. These acts constitute the **legal regulatory environment**.
- These regulations are essential for the **smooth functioning of enterprises** as their non-compliance can lead to legal trouble for them.
- For example, an **export-import company in India** has to follow the rules and regulations as stated under the *Foreign Trade (Development and Regulation) Act, 1992*. Similarly, the refining, processing, distribution, sale of petroleum and petroleum products are governed by the *Petroleum and Natural Gas Regulatory Board Act, 2006*.

5) Political Environment

- Political environment comprises factors relating to the government, its policies, different political parties etc.
- These factors have a **direct and immediate impact** on business transactions and functioning.
- Political **stability boosts** business confidence, whereas **political instability has an adverse effect** on it.
- For example, a situation of political unrest such as **frequent change in the ruling government** implies a change in the rules and policies of the government regarding production and manufacturing. Such a frequent change in the regulations regarding production **discourages investment**.

New Economic Policy 1991

The **New Economic Policy (NEP)** was initiated in 1991 to **tackle economic crisis** and to **speed up economic growth**. The NEP consisted of extensive economic reforms which had the following three main elements:



1) Liberalisation

- Liberalisation refers to **progressive elimination of government control and restrictions** in the form of licenses, permits and quotas.
- The main aim was to **liberalise the Indian business industry from excessive government control** and to give it complete **freedom to make its own decisions** regarding investments, marketing, pricing and production.
- Liberalisation of industries in India took the following form:
 - **Licenses** required for the establishment of industries were **abolished**.
 - Enterprises became **free in deciding the scale and size of production** and the price of the products.
 - **Restrictions were removed** on the movement of goods and services.
 - **Procedures** regarding **exports and imports** were **relaxed**.

2) Privatisation

- Privatisation refers to the **process of gradual transfer of ownership or management** from the state/public-owned enterprises to individuals or private units, i.e. from **public sector enterprises to private sector enterprises**.
- It implies assigning a greater **role to private sector undertakings**.
- This **dilutes the stake of the government** in a public enterprise and results in a transfer of ownership of that enterprise to a private sector.
- Privatisation was followed in India in the following manner:
 - **Disinvesting** public sector enterprises
 - Establishing the Board of Industrial and Financial Reconstruction for the **revival of sick and loss-making enterprises**
 - **Diluting** the stake of the government in public sector enterprises

3) Globalisation

- Globalisation refers to the **process of securing socio-economic integration and development** of various economies of the world.
- It is a conscious and active process associated with **free flow of information, knowledge, services and goods** so as to expand business and trade across the borders of the countries.
- It aims at **increasing openness, growing economic independence and promoting economic integration** in the world economy.
- In India, the following policies were followed with regard to globalisation:
 - Removal of **restriction** on imports
 - **Abolishing** export duty
 - **Reducing** import duty

Impact of Government Policy Changes on Business

The policies of liberalisation, privatisation and globalisation by the government affect the **functioning of business enterprises**. The following points highlight the impact of government policy changes on business and industry:

- 1) **Increased competition:** The policy allowed **easy entry of foreign firms** and the **abolition of licensing**. Domestic companies thus have to **compete with international firms** in the market which is a serious **challenge** and **threat** to them. Only companies with the latest technology and ample resources are capable of surviving in the competitive market.
- 2) **Increased demand:** Because of the fierce **competition from the foreign market and new businessmen joining the production line**, there has been a tremendous increase in customer's demands for a better choice of goods and services. The market became more customer centric. The goods and services were produced by the company keeping in mind the needs and demands of the consumer.
- 3) **Change in business policies:** Business enterprises have **to alter their policies and operations from time to time** following government policies under the New Economic Policy.
- 4) **Technological changes:** The competitive spirit has led new firms **to fund new and innovative ways** to outrun each other in the market. They increasingly **adopt new technology** and engage and invest in further research and development.
- 5) **Need for trained personnel:** High-end technologies and innovations have resulted **in improved product applications**. The market now demands skilled, trained and competent personnel to handle the ever evolving technologies and products.
- 6) **Greater market orientation:** Planning production on the basis of **market research and customer demand** is a new way for firms/companies to stay in the competitive market.
- 7) **Less reliance on budgetary support by public sector enterprises:** The need to improve efficiency and productivity has helped **public sector firms to survive the increased competition**. They have **reduced their reliance on budgetary support** to cover their losses so as to avoid disinvestment.

Demonetisation

Define Demonetisation

- Demonetisation means ***cancelling or withdrawal of legal tender status of a unit of currency which is in circulation.***

Demonetisation in India

- In India, two largest currency notes (Rs 500 and Rs 1000) were demonetised after an announcement made by the government on 8th November 2016.
- Due to this step taken by the government, 86 percent of the currency in circulation became invalid.
- Curbing, corruption, restricting the use of high value currency notes for illegal activities, tackling the issue of accumulation of black money etc. were among the few important aims of demonetisation.

Features of Demonetisation

