CHAPTER -2 BUSINESS ENVIRONMENT

Business Environment: Definition

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.

Importance of Business Environment

1. **It enables the firm to identify opportunities and getting the first mover advantage** instead of losing them to its competitors.
2. **It helps the firm to identify threats and early warning signals** which are likely to hinder a firm's performance and take timely actions.
3. **It helps in tapping useful resources** as the enterprise designs policies that allow it to get the resources that it needs so that it can convert those resources into outputs that the environment desires.
4. **It helps in coping with rapid changes** as the managers are able to understand and examine the environment and develop appropriate courses of action.
5. **It helps in assisting in planning and policy** formulation as its understanding and analysis can be the basis for deciding the future course of action or decision making.
   It helps in improving performance of an enterprise through continuous monitoring of the environment and adopting suitable business practices which help to improve both their present and future performance
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Features of Business Environment

1. **It is a sum total of all the forces** external to business firms.
2. **It consists of both specific forces** such as investors, customers, competitors and suppliers which affect individual enterprises directly and immediately in their day-to¬day working and general forces such as social, political, legal and technological conditions which have impact on all business enterprises and thus may affect an individual firm only indirectly.
3. All the elements of business environment are closely **interrelated.**
4. **It is dynamic in nature** and keeps on changing due to technological upgradations, shifts in consumer preferences or increase in competition in the market.
5. **It** is highly **uncertain** as it is not always possible to predict future happenings, especially when environment changes are taking place too frequently as in the case of information technology or fashion industries.
6. It is **complex** in nature as it is relatively easier to understand in parts but difficult to comprehend in its totality because it consists of numerous interrelated and dynamic conditions or forces which arise from different sources.
7. It is a **relative concept** since it differs from country to country and even region to region

DIMENSIONS OF BUSINESS ENVIRONMENT

Dimensions of the business environment include economic, social, technological, political and legal conditions which are considered relevant for decision-making and improving the performance of an enterprise.

Various Factors Constituting the General Environment of Business

1. **Economic Environment** comprises of factors that can affect management practices ina business enterprise. It includes interest rates, inflation rates, changes in disposable income of people, stock market indices and the value of rupee etc.

2. **Social Environment** includes the social forces like customs and traditions, values, social trends, society's expectations from business, etc.
3. **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 business.
4. **Political Environment** includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business.
5. **Legal Environment** includes various legislations passed by the Government administrative orders issued by government authorities, court judgments as well as the decisions rendered by various commissions and agencies at every level of the government— center, state or local.

ECONOMIC ENVIRONMENT IN INDIA

Various Macro-level Factors of Economic Environment in India

1. Stage of economic development of the country.
2. The economic structure in the form of mixed economy which recognises the role of both public and private sectors.
3. Economic policies of the Government, including industrial, monetary and fiscal policies.
4. Economic planning, including five year plans, annual budgets, and so on.
5. Economic indices, like national income, distribution of income, rate and growth of GNP, per capita income, disposal personal income, rate of savings and investments, value of exports and imports, balance of payments, etc.
6. Infrastructural factors, such as, financial institutions, banks, modes of transportation communication facilities etc.

The Constituents of Economic Environment of Business in India at the time of Independence

1. The Indian economy was mainly agricultural and rural in character.
2. About 70% of the working population was employed in agriculture.
3. About 85% of the population was living in the villages.
4. Production was carried out using irrational, low productivity technology
5. Communicable diseases were widespread, mortality rates were high and there was no good public health system.

Key Aspects of the Economic Planning in India After Independence

1. Initiate rapid economic growth to raise the standard of living, reduce unemployment and poverty.
2. Become self-reliant and set upa strong industrial base with emphasis on heavy and basic industries.
3. Reduce inequalities of income and wealth.
4. Adopt a socialist pattern of development— based on equality and prevent exploitation of man by man.

NEW INDUSTRIAL POLICY OF 1991

Three Major Componenets of New Industrial Policy of 1991

1. Liberalisation
2. Privatisation
3. Globalisation

Disinvestment definition

Disinvestments refers to transfer from public sector enterprises to the private sector through dilution of state of the Government in the public enterprise

The Broad Feature of New Industrial Policy, 1991

1. The Government reduced the number of industries under compulsory licensing to six.

2. Many of the industries reserved for the public sector under the earlier policy, were dereserved. The role of the public sector was limited only to four industries of strategic importance.
3. Disinvestment was carried out in case of many public sector industrial enterprises.
4. The share of foreign equity participation was increased and in many activities 100 per cent Foreign Direct Investment (FDI) was permitted.
5. Automatic permission was now granted for technology agreements with foreign companies.
6. Foreign Investment Promotion Board (FIPB) was set up to promote and channelise foreign investment in India.

Liberalisation

These economic reforms signalled the The new set of economic Globalisation means the end of the licence-permit-quota raj reforms aimed at giving integration of the various and were aimed at liberalising the greater role to the private economies of the world Indian business and industry from all sector in the nation building leading towards the unnecessary controls and restrictions.

Simplifying procedures for imports and exports.

Key initiatives of the government:

1. Abolishing licensing requirement in most of the industries except a short list .
2. Freedom in deciding the scale of business activities
3. Removal of restrictions on the movement of goods and services.
4. Freedom in fixing the prices of goods and services.
5. Reduction in tax rates and lifting of unnecessary controls over the economy.
6. Making it easier to attract foreign capital and technology to India.

Privatisation

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Key initiatives of the government:

1. Adopted the policy of planned disinvestments of the public sector.
2. Decided to refer the loss making and sick enterprises to the Board of Industrial and Financial Reconstruction.

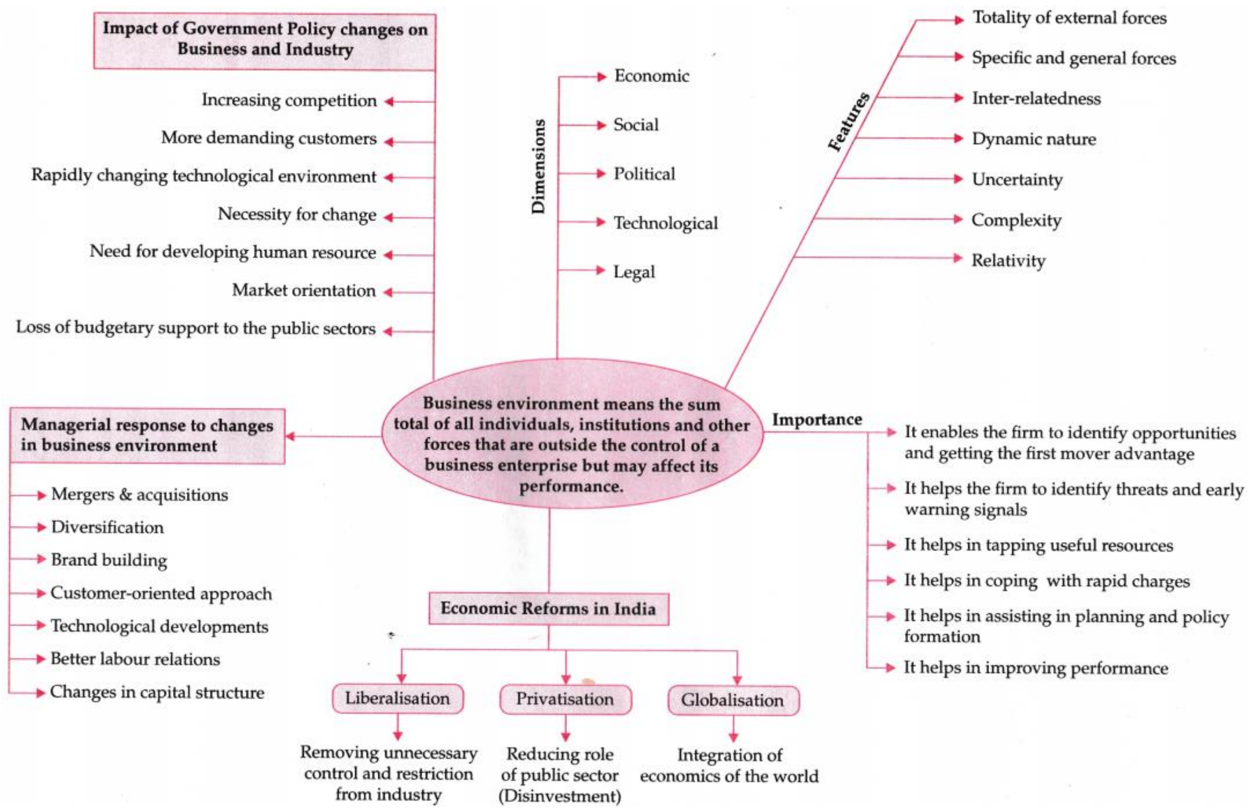
Globalisation

These economic reforms signalled the The new set of economic Globalisation means the end of the licence-permit-quota raj reforms aimed at giving integration of the various and were aimed at liberalising the greater role to the private economies of the world Indian business and industry from all sector in the nation building leading towards the unnecessary controls and restrictions. process and a reduced role emergence of a cohesive to the public sector. global economy.

Key initiatives of the government:

1. Import liberalisation and export promotion through rationalisation of the tariff structure and reforms with respect to foreign exchange.
2. Increased level of interaction and interdependence among the various nations of the global economy.

MIND MAP


Impact of Government Policy changes on Business and Industry
Increasing competition
More demanding customers
Rapidly changing technological environment
Necessity for change
Need for developing human resource
Market orientation
Loss of budgetary support to the public sectors
Dimensions
Economic
Social
Political
Technological
Legal
Features
Totality of external forces
Specific and general forces
Inter-relatedness
Dynamic nature
Uncertainty
Complexity
Relativity
Business environment means the sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but may affect its performance.
Managerial response to changes in business environment
Mergers & acquisitions
Diversification
Brand building
Customer-oriented approach
Technological developments
Better labour relations
Changes in capital structure
Importance
It enables the firm to identify opportunities and getting the first mover advantage
It helps the firm to identify threats and early warning signals
It helps in tapping useful resources
It helps in coping with rapid charges
It helps in assisting in planning and policy formation
It helps in improving performance
Economic Reforms in India
Liberalisation
Privatisation
Globalisation
Removing unnecessary control and restriction from industry
Reducing role of public sector (Disinvestment)
Integration of economics of the world