

Chapter- 3.

Business Environment

Meaning of Business Environment

→ 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. **beingcommerce**

Features of Business environment.

- (i) Totality of external forces: Sum total ^{of} ~~to~~ all things external to business firms and as such is **aggregative** in nature.
- (ii) Specific and general forces: - **Specific forces** (investors, customers, competitors & suppliers) affect individual enterprises **directly**.
General forces (social, political, legal and technological conditions) have impact on all business enterprises and thus may affect ~~the~~ an individual firm only **indirectly**.
- (iii) Inter-relatedness: - Different elements or parts of a business ^{environment} are closely interrelated.
- (iv) Dynamic nature: - It keeps on changing whether in terms of technological improvement, shifts in ~~from~~ consumer preferences or entry of new

competition in market.

(v) Uncertainty :- Largely uncertain as it is very difficult to predict future happenings.

(vi) Complexity :- Since business environment consists of numerous interrelated and dynamic conditions or forces which arises from different sources, it becomes difficult at to comprehend at once what exactly constitutes a given environment.

(vii) Relativity :- It is a relative concept since it differs from country to country and even region to region.

Importance of Business environment

(i) It enables the firm to identify opportunities and getting the first mover advantage :- Early identification of opportunities helps an enterprise to be the first to exploit them instead of losing them to competitors.

opportunities :- It refers to the positive external trends or changes that will help a firm to improve performance.

(ii) It helps the firm to identify threats and early warning signals.

Threats :- It refers to the external environment trends and changes that will hinder a firm's performance.

the market for a longer period.

↳ Dimensions of Business Environment [SLEPT]

- (i) Economic Environment :- Interest rates, inflation rates, changes in disposable income of people, stock market indices and the value of rupee. (factors affecting business enterprise).
- (ii) Social Environment :- Social forces like customs, & traditions, values, social trends, society's expectations from business etc.
- **Tradition** → Social practices that have lasted for decades or even centuries.
 - **Values** → Refers to concepts that a society holds in high esteem.
 - **Social trends** → It presents various opportunities and threats to business enterprises.
- (iii) Technological Environment :- It 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.
- (iv) Political Environment :- includes political conditions such as general stability and peace in the country and specific attitudes that elected govt. representatives towards business.
- (v) Legal Environment :- includes various legislations passed by the govt. administration orders issued by the govt. authorities, court judgements and as well as the decision rendered by various commissions agencies at every level of govt. - Centre, state or

Local.

Acts

- Companies Act 2013
- Industrial ~~Act 1951~~ Industries (Development and Regulation) Act 1981.
- Foreign Exchange Management Act
- Imports and Exports (Control) Act 1947
- Factories Act 1948
- Trade union Act 1926
- Workmen's Compensation Act, 1923
- Industrial Disputes Act 1947
- Consumer Protection Act 1986
- Competition Act 2002.

Economic Environment in India.

- FDI → Foreign Direct Investment
- FIPB → Foreign Investment promotion Board.
- BIFR → Board of Industrial and Financial Reconstruction
- Liberalisation :- Liberalising the Indian business and industry from all unnecessary controls and restrictions. They signalled the end of the license - permit - quota reg.
- Privatisation → Greater importance to the private sector in the nation building process and a reduced role to the public sector.

New Industrial Policy 1991.

- Disinvestments → Transfer in public sector enterprises to the private sector.

Environmental awareness can help managers to identify various threats on time and serve as an early warning single signal.

(iii) It helps in tapping useful resources :- The enterprise depends on the environment as a source of inputs or resources and as an outlet for outputs, it only makes sense that 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.

(iv) It helps in coping with rapid changes :- In order to effectively cope with these significant changes, managers must understand and examine the environment and develop suitable course of action.

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(v) It helps in assisting plans and policy formulation
↳ Understanding and analysis of opportunities & threats can be the basis for deciding the future course of action (planning) or training guidance guidelines for decision making (policy)

(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

→ Globalisation → Integration of the various economies of the world leading towards the emergence of a cohesive global economy.

Demonitisation → Process by which govt. cancel the legal status of a currency.

→ In India it was held on 8 Nov. 2016, the two largest denomination notes, ₹500, ₹1000 were 'demonitised' with immediate effects, ceasing to be legal tender except (except bank) for a few specified purposes such as paying utility bills.

Impact of Government Policy changes on Business and industry

→ Challenges faced by Indian corporate sector:-

- (i) Increasing Competition :- With the entry of foreign firms, competition for Indian firms has increased.
- (ii) More demanding customers :- Customers demand more as they are well informed.
- (iii) Rapidly changing technological environment :- New technologies makes the firm develop new ways to survive.
- (iv) Necessity for changes :- After 1991, the market forces become turbulent due to which 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 :- Firms have to study and analyse the market first and produce goods accordingly.
- (vii) Loss of budgetary support to the public sector :- To survive & grow public sector will have to be more efficient and generate