BUSINESS ENVIRONMENT

Meaning – Environment refers to the surroundings in which a person or organization operates. Business environment means the political, social, economic, technological and cultural forces outside a business firm with which the entity deals. The environment also includes institutions like suppliers, customers, competitors, financiers and the government with which the firm has to deal in order to achieve its goals.

Business environment is the aggregate of all conditions, events and influences that surround and affect it.

3. Business environment may sometimes provide opportunities for growth as well it may constrain (threat) the growth of an organisation. The non availability of cheap electricity may be a constraint for firms depnding on power. Government control on use of ground water is a limiting factor for the manufacturers of soft drinks. BPO is an opportunity to reduce cost of operations. The emerging demand for houses is an opportunity for cement manufacturers. Manufacturers of conventional cameras, conventional tape recorders etc. realised the threat of their product becoming obsolet due to change in technology.

Importance of Business Environment

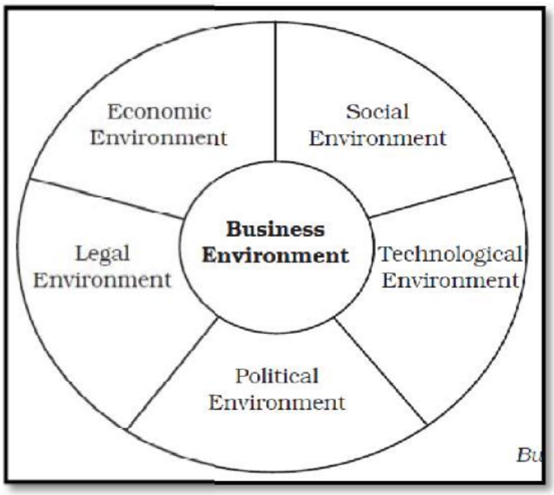
Modern business world is a world of competitions. Those who are incompetent to face this competition will be out of the field. For this it is vital to adapt things according to the environment. For adjusting the operations of an organization according to the environment, environment scanning is essential. Environment scanning means monitoring the environment of each organization and identifying the constraints and opportunities before them.

The importance of business environment (Importance of Business Environment Scanning)

1. **Identification of business opportunities and getting the first mover advantage –** Identification of opportunities at an early stage helps the firm to be able to exploit them without losing them to competitors. E.g., Maruthi Udyog Ltd. became the leader in the segment of small car market.
2. **Identifying threats and early warning signals –** Environmental awareness helps the managers to identify various threats; it provides the business early warning signals to plan its future course of action. E.g., Entry of multinational companies in Indian market gave a warning signals for the domestic industries to make some preparations like cost reduction, improving quality, reducing wastages etc.
3. **Tapping useful resources –** Environment provides various resources to the business like materials, machinery, water, finance, electricity, labour etc.
4. **Coping with rapid changes –** Business environment is highly dynamic such as change in market condition, technology, competition etc. To cope with these changes managers must be dynamic. This is possible through proper environment scanning.
5. **Assisting in planning and policy formulation –** Environment scanning gives vital information which can be taken as the basis for deciding future course of action (planning) or framing guidelines for decision making (policy formulation).

www.rrvgirls.com

6. **Helps in improving performance –** Those enterprises which continuously monitor their environment and adopt suitable policies will improve their performance. **Dimensions / Factors of Business Environment**



1. **Economic Environment -** Economic condition, economic system, economic policy, inflation rates, interest rates, tax rates etc. are the main components of economic environment. Some economic policies of Government may favorably affect the business whereas it may adversely affect some others. For example, import restriction on some goods may give advantage to home industries producing such goods, while, liberalization on import attracts foreign producers may create difficulties to home producers.
2. **Social Environment –** The social environment greatly influences the working of a business. A business gets its inputs from society and returns the output again to the society according to its needs. The social environment is made up of population trends, individual

www.rrvgirls.com

needs and cultural factors. The business should adopt a business strategy which should be suitable for social-cultural environment.

3. **Technological Environment –** It consists of new approaches to producing goods and services. Production methods and services are fast changing. New instruments and new procedures are developing rapidly. Computer aided production system made a drastic change in the business sector, DTP facility increased the speed and quality of printing which wiped out the old printing machines, CDs and DVDs adversely affected video cassettes and tape recorders, mobile phones with numerous interactive features have affected many business segments.
4. **Political Environment –** Political environment includes political parties and their ideology, type of government (single or coalition-union of different parties), stability of the government, policy towards business etc. All these factors have far reaching impact on the growth and profitability of business. For instance, Coco-Cola Multi National Company discontinued its operations in India in the late seventies due to government policy. Again in 1989 another government welcomed such multinational companies to India.
5. **Legal Environment –** It includes the Acts that have been passed by the Central and the State Governments. The laws related to business made by government are of utmost importance. All members of business community must follow these laws. In India, business is regulated with the help of following legislations: **a**. Trade Mark Act – 1969, **b**. Essential Commodities Act – 1955, **c**. Consumer Protection Act – 1986, **d**. The

Contract Act, **e**. Companies Act – 1956, **f**. Factories Act, **g**. Industrial Disputes Act, **h**. Workers Compensation Act, **i**. Minimum Wages Act, **j**. Income Tax Act – 1961, **k**. Sales Tax Act etc.

Economic Environment in India

Till 1991 India followed an economic policy with a socialist bias. The policy was based on the primacy of public sector and control and regulations on private sector. From 1991 onwards the Government started implementing sweeping economic reforms. As part of economic reforms, the government of India announced a new industrial policy in 1991.

Features of Industrial Policy

a. Reduced the number of industries to 6 which require compulsory licensing.
b. De-reserved many industries which were earlier reserved for the public sector.
c. Carried out disinvestment process in case of many public sector companies.
d. Liberalized foreign capital policy – 100% Foreign Direct Investment (FDI) in many segments.
e. Granted permission for technology agreement with foreign companies.
f. Set up Foreign Investment Promotion Board (FIPB) to promote foreign investment in India.

Liberalization, Privatization and Globalization **(LPG)** are the major programs of this new policy.

1. **Liberalization –** Liberalization means liberating the economy from the regulations and restrictions on economic growth. The old policy of licenses, permits, quotas and controls discouraged private enterprises. Import licensing, foreign exchange regulations, progressive taxes, price controls, etc. discouraged investments. Acts like MRTP Act prevented large

www.rrvgirls.com

business houses from fresh investment, expansion and modernization. All these policies adversely affected industrialization and economic growth.

The new policy of liberalization through de-licensing and decontrols frees the economy from restrictions. Licenses and permits have been replaced by broad guidelines.

2. **Privatization –** The word “Privatization” was implemented by the management expert Peter Drucker. It is just opposite to “Nationalization”. Privatization is a trend all over the world now, in India the priority given to the public sector is gradually being reduced and the role of private sector is being encouraged. The main features of privatization are as follows:
   a. Disinvestment of a part of the shares held by the government in Public Sector Undertakings (PSUs). This results in passing of ownership, control and management of PSUs to the private sector.
   b. De-reservation of areas formerly reserved for the public sector. This allows the private sector to enter into new areas.
   The government is withdrawing from many economic activities like running business and is concentrating more on areas like primary and secondary education, provision of basic health care, development of infrastructure etc.

3. **Globalization –** Globalization means free movement of goods, capital and labour across the globe. This involves reduction of import duties and encouragement of foreign investment.

   It has to be remembered that while liberalization and privatization are policies, globalization is a fact. As Amartya Sen (Nobel Prize winner) said, “*Globalization is a not a policy, it is a phenomenon. There are gains and pains from globalization. Appropriate policies have to be formulated to maximize the gains and minimize the pains.”*

****

For latest updates visit: HssVoice Blog

www.hssplustwo.blogspot.com

www.rrvgirls.com