Business Environment

Part 1

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Main Topics of this chapter

- Business Environment- concept and importance
- Dimensions of Business Environment- Economic, Social, Technological, Political and Legal
- Demonetization - concept and features
- Impact of Government policy changes on business with special reference to liberalization, privatization and globalization in India

Learning Objectives

- Understand the concept of 'Business Environment'.
- Describe the importance of business environment
- Describe the various dimensions of 'Business Environment'.
- Understand the concept of demonetization
- Examine the impact of government policy changes on business in India with reference to liberalisation, privatization and globalisation since 1991.
- Discuss the managerial response to changes in business environment.

Meaning of Business Environment

"Business Environment means the sum total of those factors which influence the business and over which the business has no control. It has both the threat and opportunities for the business."

Consumer

Service Provider

GST
Goods and Services Tax

Features of Business Environment

- Totality of External Forces
- Specific and General Forces
- Interrelatedness
- Dynamic Nature
- Uncertainty
- Complexity
- Relativity

1. Totality of External Forces

2. Specific and General Forces

- **Specific Forces:-** Those forces affect the firms of an industry separately, e.g., customers, suppliers, competitive firms, investors etc.
- **General Forces:-** These forces affect all the firms of an industry equally, e.g., social, political, legal and technical situations.

3. Interrelatedness

The different factors of business environment are co related. For example, if there is a change in the import-export policy with the coming of a new government. In this case, the coming new government to power and change in this policy are political and economic changes respectively. Thus, a change in one factor affect other factor.

4. Dynamic Nature

Business environment is dynamic in that it keeps on changing whether in terms of technological improvement, shifts in consumer preferences or entry of new competition in the market.

5. Uncertainty

Business environment is largely uncertain as it is very difficult to predict future happenings, especially when environment changes are taking place too frequently as in the case of information technology or fashion industries.

6. Complexity

Since business environment consists of numerous interrelated and dynamic conditions or forces which arise from different sources, it becomes difficult to comprehend at once what exactly constitutes a given environment. In other words, environment is a complex phenomenon that is relatively easier to understand in parts but difficult to grasp in its totality.

7. Relativity

Business environment is a relative concept since it differs from country to country and even region to region. Political conditions in the USA, for instance, differ from those in China or Pakistan. Similarly, demand for sarees may be fairly high in India whereas it may be almost non-existent in France.

Importance of Business Environment

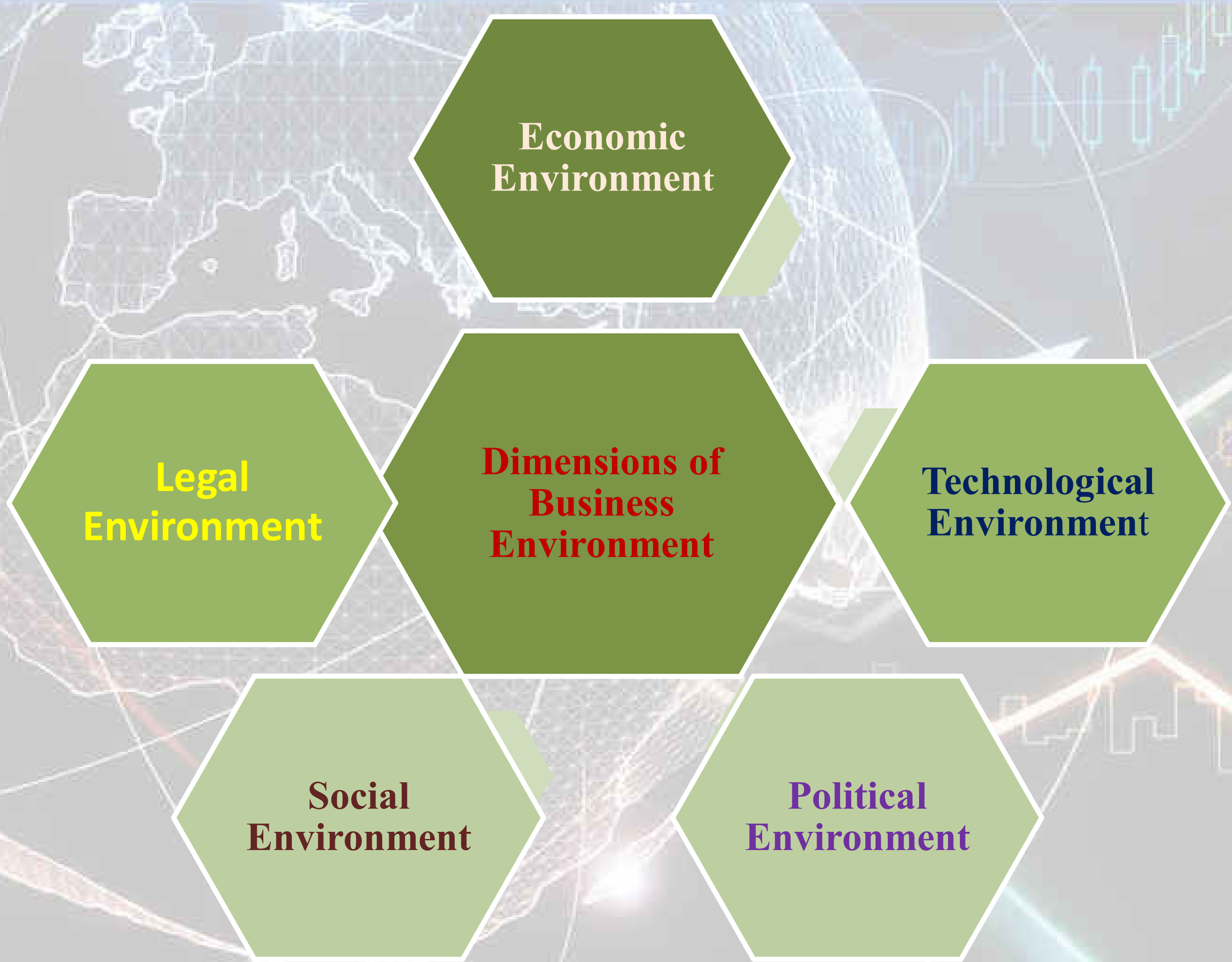
- It enables the firm to identify opportunities and getting the first mover advantage
- It helps the firm to identify threats and early warning signals
- It helps in tapping useful resources
- It helps in coping with rapid changes
- It helps in planning and policy formulation
- It helps in improving performance

Components of Business Environment

- **Components of Business Environment**
  - **Internal Environment**
    1. Objectives
    2. Policies
    3. Organisation Structure
    4. Management Information System
    5. Production Method
    6. Production Capacity
  - **External Environment**
    - **Micro or Operating Environment**
      1. Customers
      2. Suppliers
      3. Competitors
      4. Public
      5. Marketing Intermediaries
    - **Macro or General Environment**
      1. Economic Environment
      2. Social Environment
      3. Technological Environment
      4. Political Environment

      Legal Environment

Dimensions of Business Environment



1. Economic Environment

Interest rates, inflation rates, changes in disposable income of people, stock market indices and the value of rupee are some of the economic factors that can affect management practices in a business enterprise. Short and long term interest rates significantly affect the demand for product and services.

It refers to the combination of economic system, economic policies and economic conditions of a country.

2. Social Environment

The social environment of business include the social forces like customs and traditions, values, social trends, society's expectations from business, etc. Traditions define social practices that have lasted for decades or even centuries.

It refers to the combination of all the characteristics of the society in which the organization exists.

3. Technological Environment

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 a business.

It refers to innovations relating to various business activities.

4. Political Environment

Political Environment consists of the political conditions such as general stability and peace in the country and attitude of the government towards business. It has great impact on the business community.

It refers to political conditions in the country and attitude of the government towards business.

5. Legal Environment

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— centre, state or local.

It refers to the sum total of all the Acts passed by the government, Judgements of courts, and Decisions rendered by various commissions and agencies in the country.

Demonetization

What happened on Demonetization?

- **On 8th November, 2016, the Government of India** had announced that from today onwards Rs.500 and Rs.1,000 note will not be legal tender.
- Means that 500 and 1,000 rupees note will not be accepted by anyone except the organisations declared by the government.
- Public can deposit and change the currency from the banks and post offices till the date specified by the government.

What is Demonetization?

- Demonetization is the withdrawal of a particular form of currency from circulation.
- It is a process by which a series of currency will not be legal tender.
- The series of currency will not be acceptable as valid currency.

Demonetization History and Background in India

This is not the first time when Indian currency is demonetized in India.

- **Earlier it was done in 1946 with complete ban of Rs.1,000 and Rs.10,000 notes to deal with the unaccounted money i.e., black money.**
- **Secondly it was done in 1978, the government headed by Morarji Desai when Rs.1,000; Rs.5,000 and Rs.10,000 notes were demonetized.**

Features of Demonetization

- Tax administrative measures
- Tax Evasion control measure
- Channelising savings into the formal Financial System
- Creating Cash-less Economy

1. Tax Administrative Measures

Demonetization is regarded as a measure of tax administration. People with cash in hand on account of their declared income readily deposited their cash in banks and got it exchanged for new currency. On the other hand, those who had black money had to come forward to declare their unaccounted cash and pay taxes along with penalty.

2. Tax Evasion Control Measure

Demonetization is also known as the government's measure to control the mal-practices of tax evasion (avoiding tax illegally).

3. Channelising Savings into the Formal Financial System

The savings of the people channelized into the formal financial system. As a result, some of the new deposits can be used for launching new profitable schemes and providing loans at lower interest rates.

4. Creating Cash-less Economy

Demonetisation brought understanding in people for channeling more savings through formal financial system and hence improving more chances of cash-less economy.

Impact of Demonetization

- Attack on Black Money Holders
- Death Knell to Fake Currency Rackets
- End of Terrorist Funding
- Transparency in Transaction
- End of Huge Donations
- Towards a Cash-less Economy

Economic Reforms since 1991 or New Economic Policy or Changing Scenario of Indian Economic Environment

Indian economy had experienced major policy changes in early 1990s. The new economic reform, popularly known as, **Liberalization, Privatization and Globalization** (LPG model) aimed at making the Indian economy as fastest growing economy and globally competitive. The series of reforms undertaken with respect to industrial sector, trade as well as financial sector aimed at making the economy more efficient. With the onset of reforms to liberalize the Indian economy in July of 1991, a new chapter has dawned for India and her billion plus population. This period of economic transition has had a tremendous impact on the overall economic development of almost all major 38 sectors of the economy, and its effects over the last decade can hardly be overlooked. Besides, it also marks the advent of the real integration of the Indian economy into the global economy.

1. Liberalization

Liberalization means to unshackling the economy from bureaucratic cobweb to make it more competitive.

Main Features are:-

- To do away with the necessity of having a license for most of the industries.
- Freedom in determining the scale of business activities.
- Removing restrictions for the movement of goods and services from one place to another.
- Freedom to fix the prices of goods and services.
- Reduction in the rate of taxes.
- Freedom from unnecessary control over economy.
- Simplifying import-export procedure.
- Simplifying the process of attracting foreign capital and technology.

2. Privatization

Privatization, which has become a universal trend, means transfer of ownership and/or management of an enterprise from the public sector to the private sector. It also means the withdrawal of the state from an industry or sector, partially or fully. Another dimension of privatization is opening up of an industry that has been reserved for the public sector to the private sector.

Definitions of Privatization

1. Privatization may be defined as the transfer of the public sector activities and functions to the private sector.
2. This applies to the commercial and industrial enterprises which are often owned, managed and implemented by the public sector which could otherwise be operated by the private sector.
3. Privatization is premised on the assumption of the superiority of market forces over administrative directives in governing economic activity to achieve efficiency.

Main Features of Privatization

- To improve the performance of PSUs (Public Sector Undertakings) so as to lessen the financial burden on taxpayers.
- To increase the size and dynamism of the private sector, distributing ownership more widely in the population at large.
- To encourage and to facilitate private sector investments, from both domestic and foreign sources.
- To generate revenues for the state.
- To reduce the administrative burden on the state.
- Launching and sustaining the transformation of the economy from a command to a market model.

3. Globalization

Globalization (globalization) is a term for the process by which local, regional or national phenomena become integrated on a global scale.

Globalization means integrating the economy with the rest of the world.

Main Features of Globalization

- Free flow of goods and services in all the countries.
- Free flow of capital in all the countries.
- Free flow of information and technology in all the countries.
- Free movement of people in all the countries.
- The same conflict-solving technique in all the countries.

Impact of Changes in Government Policies on Business and Industry

- Increasing Competition
- More Demanding Customers
- Rapidly Changing Technological Environment
- Necessity for Change
- Need for Developing Human Resources
- Market Orientation
- Loss of Budgetary Support to the Public Sector