

# BUSINESS ENVIRONMENT

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.

For e.g.

- Change in Govt policies
- Technological changes
- Political uncertainty
- Change in fashion and taste of customers etc.

## FEATURES OF BUSINESS ENVIRONMENT

- 1) **TOTALITY OF EXTERNAL FORCES:** Business environment is the sum total of all things, External to business firms such as Govt. Consumers, competitors' media and all other institutions working outside the enterprise.
- 2) **SPECIFIC AND GENERAL FORCES:** Business environment includes both specific and general forces.
  - Specific forces i.e. investors, customers, competitors and suppliers affecting individual enterprises directly.
  - General forces i.e. social, political, legal and technological changes that have impact on all business enterprises, and thus, may affect on individual enterprises, indirectly.
- 3) **INTER-RELATEDNESS:** Different elements or parts of business environment are closely inter-related.  
For e.g.: increased education level resulted in increased awareness for health care, which again results in increased demand for health products such as diet coke, fat free consumer products, organic food etc.
- 4) **DYNAMIC NATURE :** Business environment is dynamic, as it keeps on changing whether in terms of technological improvements, customers Taste and preferences' or entry of new competitors' in the market.
- 5) **UNCERTAINTY:** Business environment is largely uncertain as it is very difficult to predict future happenings, especially when environmental changes are too frequent.  
For e.g.: In the case of Fashion Industry it is almost impossible to predict future.

- 6) **COMPLEXITY**: Since, business environment consists of many inter-related and dynamic conditions or forces, that is why it becomes difficult to understand at once, the influence, of total business environment on an enterprises. In other words, it is so complex that it can be understood in parts, but difficult to grasp in totality.
- 7) **RELATIVITY**: Business environment is a relative concept since it differs from country to country and even region to region.  
For e.g: political conditions in USA will differ from those in China or Pakistan. Similarly, demand for sarees is high in India where it is almost non-existent in France.

### **IMPORTANCE OF UNDERSTANDING BUSINESS ENVIRONMENT:**

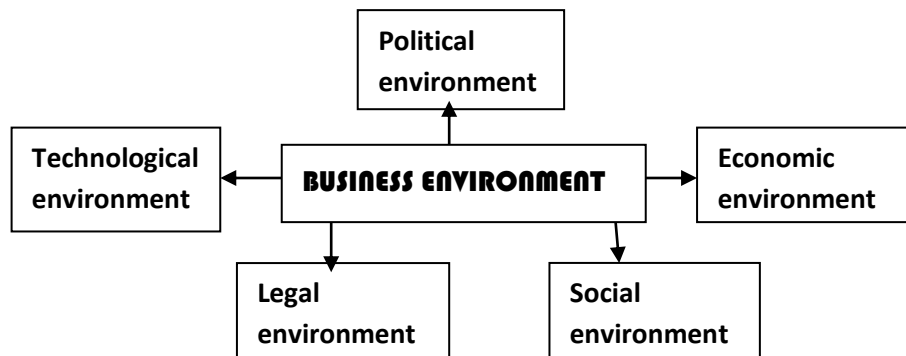
- 1) **IT ENABLES THE FIRM TO IDENTIFY OPPORTUNITIES AND GETTING FIRST MOVER ADVANTAGE**: Opportunities refers to the positive changes that can help a firm to improve its performance. Environment provides many opportunities for Business success.
- Early identification of opportunities helps on enterprise to be the first to use them instead of losing them to the competitors.
  - Maruti Udyog became the leader in the small car market because it was the first one to recognize the need for small car in India.
- 2) **IT HELPS THE FIRM TO IDENTIFY THREATS & EARLY WARNING SIGNALS**: Threats refers to external environment's trends and changes that may result in hindrance in firm's performance.
- Environmental awareness can help managers to identify various threats on time and serve as an early warning signal.
  - For e.g.: in an Indian Firm, finds that an MNC is entering the Indian Market with new substitutes. The Indian firm can prepare itself to meet the threat by improving quality of products, reducing cost or using aggressive advertisement.
- 3) **IT HELPS IN TAPPING USEFUL RESOURCES**: Environment is a source of various resources for running a business. A business enterprise requires various sources, such as finance, machines, raw materials, electricity, water, labour etc. from its environment.
- Understanding the environment helps a businessman to utilise these resources in a better way.
- 4) **IT HELPS IN COPING WITH RAPID CHANGES**: Today's business environment is getting increasingly dynamic where changes are taking place at a fast pace. Few examples of such changes are:-
- Changing brand loyalty
  - More demanding customers
  - Rapid changes in technology

- Intense global competition etc

In order to efficiently cope up with these changes, a manager must understand the environment.

- 5) **IT HELPS IN ASSISTING IN PLANNING AND POLICY FORMULATION:** Since, environment is a source of both opportunities as well as threats for a business enterprises, its understanding can be the basis for making the plans and policies for the future.
- For e.g.: Entry of a new competitor in the market may make an enterprise to prepare new plans and policies regarding how to deal with the situation.
- 6) **IT HELPS IN IMPROVING PERFORMANCE:** The final reason for understanding business environment is that, it helps in improving the overall performance of the enterprise.
- The enterprises that continuously monitor their environments are not only able to improve their present performance but also continue to succeed in the market for longer period.

### **DIMENSIONS OF BUSINESS ENVIRONMENT**



**ECONOMIC ENVIRONMENT:** Economic environment consists of:

- GDP – Gross Domestic Product
- Value of rupee
- Inflation Rate (Price Rise)
- Stock market (Stock Exchanges)
- Interest Rates, Tax Rates etc.

**Examples of impact of economic environment on business are:**

- In case of construction companies and automobile manufacturers, low interest rates are **beneficial** as they results in increased spending by consumers for buying homes. Cars etc.
- A rise in disposable income of people due to increase in GDP of the country creates increased demand for products.
- High inflation rate increase the cost of raw materials and machinery for business enterprises, creating difficulties for them.

**SOCIAL ENVIRONMENT:** The social environment of business includes, the social forces like:

- Customs and traditions social trends, values and lifestyle
- Literacy rates
- Societies' expectations from business etc.

**Examples:**

- The celebration of Diwali, Id, Christmas, Gurupurab in India provide large financial opportunities for greeting card companies, sweet shop, tailoring outlet and may other reacted business.
- Values refer to concepts that a society holds in high esteem. For E.g.: Demand for reservation in job for minorities and women, social justice, equal opportunities and way for male and female etc. are some of the values of Indian society.
- Social trends such as health and fitness trends has created a demand for products' like diet coke, mineral waters, Gyms and food supplements' etc.

**TECHNOLOGICAL ENVIRONMENT:** It includes forces relating to scientific improvements and innovations which provide new ways, methods and technique of producing goods and services.

**Examples:**

- Advertisements through computers have helped the companies to advertise their products even through internet or multimedia pages.
- Airline companies have websites where customers can look for flight times, destinations and even book their tickets.
- There have been continued innovations in the field of bio-technology, food preservation, medicines, tele communications etc. which have provided many opportunities as well as threats to business enterprises.
- Customers have shifted from fountain pens to ball pen, from typewriter to computer, from traditional watches to digital watches etc. All these have created new business enterprises

**POLITICAL ENVIRONMENT:** Political environment includes political conditions such as:

- General stability and peace in the country
- Attitude of Government towards business

**Examples :**

- Political stability builds up confidence among business men to invest in the long term projects for the growth of the economy. But, political instability can shake their confidence.

- The attitude of Government towards business may have either positive or negative impact on the business. For e.g. Even after opening up of Indian economy in 1991, foreign countries found it difficult to invest in Indian because of bureaucratic red tape in our country.

**LEGAL ENVIRONMENT:** It includes various legislations passed by the Govt., parliament and courts. It is compulsory for the management of every enterprise to obey the law of the land. Therefore, the adequate knowledge of rules and regulations is necessary for better business performance. In India, the knowledge of following laws is important for doing business:

- Company's Act 1956
- Industrial Act 1941
- Factory's Act 1948
- Workmen's compensation Act 1923
- Consumer Protection Act 1986
- Competition Act 2002

**Examples:**

- The advertisement of alcoholic beverages is legally prohibited
- Ads of cigarettes must carry the statutory warning [Cigarette smoking is Injurious to Health]

**LIBERALISATION:** The economic reforms that were introduced aiming at liberalising the Indian business and industry from all unnecessary control and restrictions.

- Abolishing licensing requirements in most of the industries except of short lost.
- Freedom in deciding the scale of business activities i.e. no restrictions on expansion or contraction of business activities.
- Removal of restrictions on the movement of Goods and services.
- Freedom in fixing the prices of Goods and services
- Simplifying the procedures for import and exports.
- Deduction in tax rates ad lifting of unnecessary control over the economy.

**PRIVATISATION:** The new set of economic reforms aimed at greater role to the private sector in the Nation and a reduced role of public sector are known as Privatisation. To achieve privatisation:-

- Govt has redefined the role of public sector in new industrial Policy 1991
- Adopted the policy of planned disinvestments of the public sector
- Decided to refer the loss making and sick enterprises to the Board of Industrial and financial Reconstruction [BIFR]

The term **disinvestment** means transfer of the public sector to the private sector. It results in dilution of shares of the Govt. to the private enterprises. If there is a dilution beyond 51%, it would result in transfer of ownership and management of the enterprises to the private sector.

**GLOBALISATION:** Globalisation means the integrations of our economic with the world economy. Till 1991, the Govt. Of India had followed a policy of strict rules and regulations regarding foreign trade. The new economic policy aimed at:

- Import liberalisation
- Export promotion
- Reforms regarding foreign exchange.

Globalisation involves an increased level of interaction and interdependence among the various nations of the global economy. This has been made possible with the rapid advancement in technology and liberal trade policy by the Govt.

### ***WHAT HAS BEEN THE OBJECTIVE/ ESSENCE OF NEW INDUSTRIAL POLICY 1991?***

#### **OBJECTIVES:**

The essence of this policy is:

- i) The policy has aimed at liberating industry from the shackles of licensing system (LIBERALISATION)
- ii) Drastically reduce the role of public sector (PRIVATISATION)
- iii) Encourage foreign private participation in India's development (GLOBALISATION)

### **IMPACT OF GOVT. POLICIES CHANGES ON BUSINESS AND INDUSTRY**

#### **1) INCREASE IN COMPETITION:**

As a result of changes in the rules of industrial licensing and entry of foreign firms, competition for Indian firms has increased, specially in service industries like telecommunication, Airlines, Banking, insurance etc. which were earlier in the hands of Public Sector.

#### **2) MORE DEMANDING CUSTOMERS:**

Costumers today have become more demanding because they are well – informed.

- Increased competition in the market gives the customers wider choice of purchasing better quality of goods and services.

#### **3) RAPIDLY CHANGING TECHNOLOGICAL ENVIORNMENT:**

Increased competition forces the firms to develop new ways to survive and grow in the market.

- New techniques make it possible to improve machines, process, products and services. The rapidly changing technological environment creates tough challenges' before smaller firms.

#### **4) NECESSITY FOR CHANGE:**

In a regulated environment of pre 1991 era, the firms had stable policies and practices.

- After 1991, the market forces are changing so rapidly that an enterprise has to continuously innovate and modify their operations.

#### **5) NEED FOR DEVELOPING HUMAN RESOURCES:**

Indian enterprises had suffered for long with inadequately trained staff.

- The market conditions require people with higher skills, abilities and sincerity. Hence, more developed human resource are required

#### **6) MARKET ORIENTATION:**

Earlier firms use to produce first and go to market for sale later on. In other words they had production oriented approach.

- In a fast changing world, there is a shift to market orientation as the firms have to study and analyze the market first and produce goods accordingly.

#### **7) LOSS OF BUDGETARY SUPPORT TO PUBLIC SECTOR:**

The central govt's budgetary support for financing the public sector has declined over the years.

- The public sector have realised that in order to survive and grow, it will have to be more efficient and generate their own resources.

### **Managerial Responses to changes in Business Environment**

1) **DIVERSIFICATION SPREE:** The corporate scene now witnessed a spate of diversification.

- For eg. Reliance has diversified into textiles, petrochemicals, IT, communication etc.

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2) **JOINT VENTURE/CONSOLIDATION OF MULTINATIONALS:** many multinationals enter india through new joint ventures.

Ford enters with Mahindra And Mahindra, Honda enters with SIEL, General Motors enters with Hindustan Motors.

- 3) **BRAND BUILDING:** Expenditures were enhanced by companies in building brand. MNCs have invested huge amounts on building brands such as LG, Samsung, and Hyundai.
- 4) **USE OF LATEST TECHNOLOGY:** Use of latest technology has become the slogan of the successful companies. The best example is that of cellular phones.
- 5) **SHARPLY IMPROVED COMPENSATION LEVELS:** Sharply improved compensation levels for special managerial and technical services. The starting salaries for engineering and management graduates have risen significantly. Incentive schemes of various kinds are becoming common.
- 6) **CUSTOMER FOCUS:** There is an increasing attention to customer needs and their satisfaction. There is a tremendous difference in the nature and quality of products offered to consumers today.
  - Marketing research, advertising, sales promotional techniques, public relations etc have become more significant.