



# learnkwniy

## CHAPTER- 3

### **BUSINESS ENVIRONMENT**

## **Meaning of 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.**

## **CHARACTERISTICS OF BUSINESS ENVIRONMENT**

### **(i) Totality of external forces:**

**Business environment is the sum total of all those factor / forces which is available outside the business and over which business has no control.**

### **ii) Specific and general forces:**

**Business environment includes both specific and general forces. Specific forces (such as investors, customers, competitors and suppliers) affect individual enterprises directly and immediately in their day-to-day working. General forces (such as social, political, legal and technological conditions) have impact on all business enterprises and thus may affect an individual firm only indirectly.**

### **(iii) Inter-relatedness**

**Different elements or parts of business environment are closely interrelated.**

### **(iv) Dynamic nature**

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

### **(v) Uncertainty**

**Business environment is largely uncertain as it is very difficult to predict future happenings, especially when environment changes are taking place too frequently.**

#### **(vi) Complexity**

**Environment comprises of many factors. All these factor are related to each other. Therefore, their individual affect on the business cannot be recognised.**

**(vii) Relativity: Business environment 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**

**Environment provides numerous opportunities for business success. Early identification of opportunities helps an enterprise to be the first to exploit them instead of losing them to competitors.**

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

**Besides opportunities, environment happens to be the source of many threats. Environmental awareness can help managers to identify various threats on time and serve as an early warning signal.**

**(iii) It helps in tapping useful resources**

**An organisation needs a number of resources to carry on its business. With the help of these resources goods and services are produced. A business gets resources from the environment and provides goods and services to the same environment. This can be done better by understanding what the environment has to offer.**

**(iv) Coping with rapid changes:**

**These days business is being run in a rapid changing environment. All sizes and all types of environment are facing increasing dynamic environment. In order to effectively cope with these significant**

**changes, manager must understand and examine the environment and develop suitable course of action.**

**v) It helps in assisting in planning and policy formulation**

**The knowledge of business environment presents the basis for planning and policy.**

**(vi) It helps in improving performance**

**Many studies reveal that the future of an enterprise is closely bound up with what is happening in the environment. And, 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 the market for a longer period.**

### **DIMENSION OF BUSINESS ENVIRONMENT**

**I) 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.**

**(II) SOCIAL ENVIRONMENT:- Business is born and develops in society. Therefore, the effect of various social factors on business is but natural. The social environment of business includes the social forces like customs and traditions, values, social trends, society's expectations from business, etc. In business terms, these values translate into freedom of choice in the market, business's responsibility towards the society.**

**(III) 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.

**(IV) POLITICAL ENVIRONMENT:-** Political environment includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business.

**(V) 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. Non-compliance of laws can land the business enterprise into legal problems

### **ECONOMIC ENVIRONMENT IN INDIA**

Since 1991 India has been going on economic reforms. We have now adopted the policy of liberalisation, privatisation and globalisation, we have started modernising the country's industrial system. Unproductive control are being removed private investment, including foreign investment is being encouraged.

### **LIBERALISATION:**

The economic reforms that were introduced were aimed at liberalising the Indian business and industry from all unnecessary controls and restrictions. Following are the chief features of liberalisation:

- (i) Abolishing licensing requirement in most of the industries except a short list,**
- (ii) Freedom in deciding the scale of business activities**
- (iii) Removal of restrictions on the movement of goods and services,**
- (iv) Freedom in fixing the prices of goods services,**
- (v) Reduction in tax rates**

- (vi) Freedom from unnecessary controls over the economy,**
- (vii) Simplifying procedures for imports and exports, and**
- (vii) Making it easier to attract foreign capital and technology to India.**

### **PRIVATISATION:**

**The new set of economic reforms aimed at giving greater role to the private sector in the nation building process and a reduced role to the public sector. Features of the privatisation are**

- (i) Reducing the role of public sector and increasing the role of private sector.**
- (ii) Reducing fiscal burden of the government.**
- (iii) Speeding up economic development.**
- (iv) Improving management of the enterprises.**

### **GLOBALISATION**

**Globalisation means integrating the economy of the world with the rest of the world. Following are the chief features:**

- (i) Free flow of goods and services in all countries.**
- (ii) Free flow of capital in all countries.**
- (iii) Free flow of information and technology;**
- (iv) Free movement of people across borders;**