

7.1 Introduction

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7.2 Importance of Business Environment**7.3 Dimensions of Business Environment****7.4 New Economic policy and Business****7.5 Impact of new economic policy on Business Environment****Summary****Exercise**

- Rahi** : Uncle, it seems that you are very happy today, what is the secret?
- Shopkeeper** : Of course Rahi, you know my business is doing very well due to the occurrence of Diwali and Ramzan in the same week.
- Rahi** : Oh, that is great coincidence. Uncle I want this T shirt, please pack it.
- Shopkeeper** : Here it is. (gives Rahi T shirt and receipt)
- Rahi:** (Surprised to see the receipt)Oh Uncle I didn't get such type of computerized receipt before, which mentions GST.
- Shopkeeper** : Yes my child you are right. We must adopt new technology from time to time to grow the business.
- Rahi** : It's true. Please give me a carry bag.
- Shopkeeper** : I am sorry Rahi, but you know better that there is a ban on plastic and there is a fine for those who violate the law.
- Rahi** : Oh, I am sorry. Bye.
- Shopkeeper** : Bye.

Social, technological, and legal environment affects the business. Hence the business needs to pay proper attention towards various dimensions of the business environment to run the business successfully.

7.1 INTRODUCTION

Like human being, business also does not function in an isolated vacuum. It functions within a whole process of relevant environment and negotiates its' way through it. The extent to which the business thrives depends on the manner in which it interacts with its environment. Successful

business does not only recognize different elements of the environment but also influence them. The business must continuously monitor and adapt to the environment in order to survive and prosper. Disturbances in the environment may either spell extreme threats or open up new opportunities for the firm. A successful business has to identify, appraise and respond to the various opportunities and threats in its environment.

The success of every business depends on adapting itself to the environment within which it functions.

7.1.1 Meaning

Business environment comprises of such factors which can affect business, such as the strength, weaknesses, internal power, relationship and orientations of the organization, government policies and regulations, nature of the economy and economic conditions, socio cultural factors, demographic trends, natural factors, and global trends.

The term business environment generally refers to the external environment which includes factors outside the business leading to opportunities or threats to the business.

7.1.2 Definitions

Bayard O. Wheeler: “The total of all things external to firm and industries which affect their organization and operations is called as Business Environment.”

William F. Glueck: “Business Environment is the process by which strategists monitor the economic, governmental, market, supplier, technological, geographic and social settings to determine opportunities and threats to the firms”.

According to **Barry M. Richman** and **Melvyan Copen**, ‘Environment factors of constraints are largely if not totally external and beyond the control of individual enterprises and their arrangement.’

The business environment constitute threats to the firm and offers opportunities for potential market including several factors. From the above definitions one can conclude that business environment consists of internal as well as external factors which constitute threats to a firm or they provide opportunities to exploit.

7.2 IMPORTANCE OF BUSINESS ENVIRONMENT

There is an intimate interaction between business and environment which helps in strengthening the business firm and using its resources more effectively. To be more specific, proper understanding of various dimensions of business environment helps the business in following way:

1. **Determining opportunities and threats:** The interaction between business and its environment identifies opportunities and threats to business. It helps the business enterprises for overcoming challenges successfully.
2. **Identifying firm’s strength and weakness:** Business environment helps to identify the individual strength and weakness in view of the technological and global development.

3. **Continuous learning:** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding the skill to meet the predicted changes in realm of business.
4. **Image Building:** Environmental understanding helps the business organization in improving their images by showing their sensitivity to the environment within which they are working. It also includes meeting the expectations of consumers, government, employees etc.
5. **Meeting Competition:** It helps the firm to analyze the strategies of the competitors and formulate their own strategies accordingly.
6. **Giving Direction for growth:** The interaction with environment leads to opening up new frontiers of growth to the business firms. It enables the business to identify the areas of growth and expansion of their activities.

7.3 DIMENSIONS OF BUSINESS ENVIRONMENT

On the basis of the extent of intimacy with the firm, the environmental factors may be classified into two types of environment; the internal environment and external environment.

The internal factors such as personnel, physical facilities, organization and functional etc. are generally regarded as controllable factors. On the other hand external factors of environment are beyond the control of a business.

BUSINESS ENVIRONMENT (DIMENSIONS AND THEIR FEATURES)

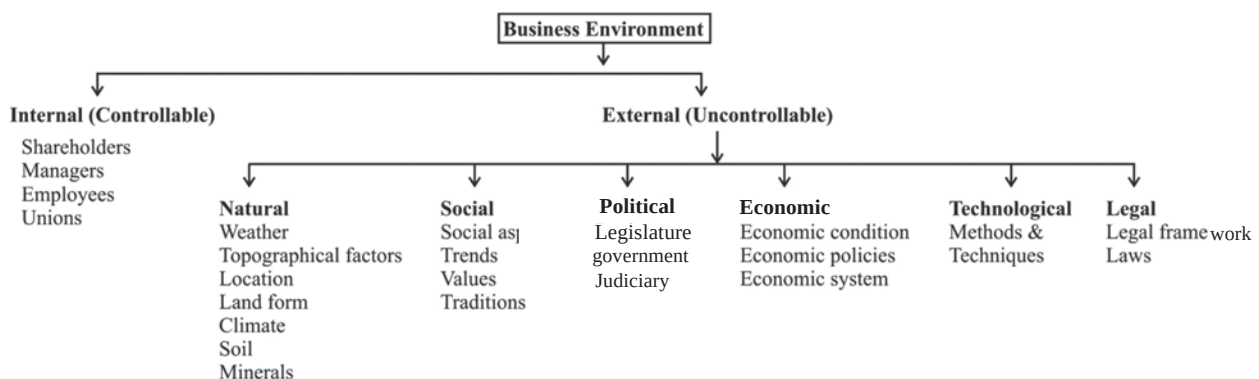


Figure 7.1

The term business environment generally refers to the external environment and includes factors outside the firm i.e. economic environment, political environment, legal environment, socio-cultural environment, technological environment, natural environment and global environment.

INTERNAL (CONTROLLABLE) FACTORS :

The policies decided by shareholders, managers, labour unions and the employees are known as Internal Environmental factors which can be controlled. On this context the factors of internal environment are discussed as follows :

1. **Value System:** The value system of the founder and those at the top management has important bearing on the choice of business. Value systems is important to success of business.

2. **Vision, Mission and Objectives:** The business domain of the company, priorities direction of development, business philosophy and business policy etc. are guided by the vision, mission and objectives of business.
3. **Management Structure and Nature:** The composition of Board of Directors, extent of professionalism of management etc. are important factors influencing business decisions.
4. **Internal Power Relationship:** The support of the top management to different levels of employees, shareholders and BOD have important influence on the decision and their implementation. The relation between the member of BOD and the chief executive is also critical factors.
5. **Human Resources:** The characteristics of human resources like skill, quality, moral, commitment and attitude etc. Could contribute to the strength and weakness of an organization.

Other Factors:

- i. **Physical Assets and Facilities:** Production capacity, technology and efficient distribution logistics etc are the factors which influence on the competitiveness.
- ii. **Marketing Resources:** Quality of marketing, brand equity and distribution network etc. have direct effect on business.
- iii. **Financial Factors:** Financial Policies, financial position and structure etc. also affect business performances, strategies and decisions.

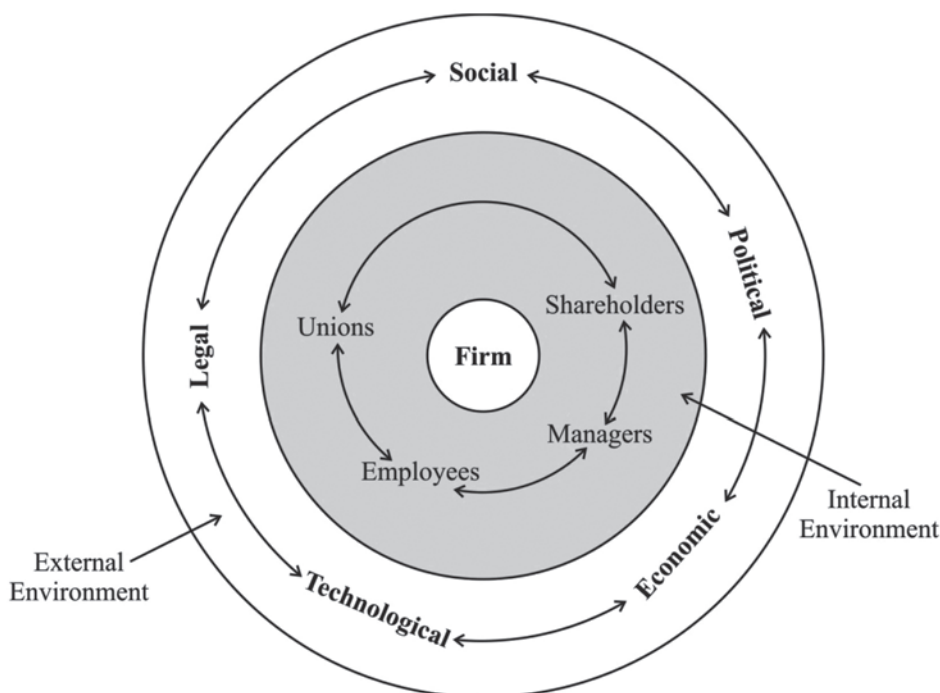


Figure 7.2

EXTERNAL (UNCONTROLLABLE) FACTORS

7.3.1 NATURAL ENVIRONMENT

The factors which influence the business are geographical and ecological factors such as natural resource endowments, weather and climatic conditions, topographical factors and location aspects in the global context. The natural environment comprises the factors like climate, minerals, soil, landforms, rivers and oceans and natural resources etc. All elements of natural environment have considerable influence on the functions of a business.

Manufacturing is one of the aspect of business which depends on physical environment for inputs like raw material, skilled labour, water and fuel etc. Trade and commerce between two nations is dependent on the geographic factors. Due to the natural factors, certain areas are more suitable for production of certain goods while other areas are in need of such goods. Some business like mining of coal and ores, drilling of oil and most important agricultural production depends on nature.

Today environmental pollution and the disturbance of ecological balance causes great concern, government policies aim at the preservation of environmental purity, ecological balance and conservation of non-replenishable resources etc. These have resulted in additional responsibilities and problems for business.



Activity

- **Natural Environment:** Find out raw material being available in abundance in your area. How many industries or business units set up is based on it ?

7.3.2 SOCIAL ENVIRONMENT

The social attitude is important for business practices to cope with it. The modern business is a social system in itself, and it is also a part of the larger social system represented by society in general. Clearly, there should be some reciprocal relationship between business and society. To put it shortly, the business should adapt itself to the social environment accordingly.

Another feature which affects the business is the class structure of the society which tells about the social role and organizations and the development of social institutions. Class structure depends upon the various factors like occupation of the people, their education, income level, social status, attitude towards living, work and social relationship and above all, their attitude towards business. Every society develops its own culture which means how the members of that society behave and interact with each other in the society. In addition to this other remarkable factors, includes aspects like customs, traditions, values, ethics, beliefs, social trends, poverty, literacy, life expectancy rate and other accepted behavior patterns which are as follows:

1. **Social aspect :** Important aspect of social environment are literacy level, educational system, cultural heritage, standard of living and mobility of labour etc.
2. **Social trends :** In India social trends are changing very fast. Urban population is becoming more health and fitness conscious. People in large numbers are going for fast food items and gyms. In view of these trends fast food outlets and gyms are coming up in urban and semi urban area.

3. **Social values :** Social Values based on customs, ethics, beliefs help business to meet the demand as per customer need. For example, Home Budget System will never be accepted in rural area due to the customs.
4. **Traditions :** Celebration of Diwali, Eid, Christmas and other festivals also affect the business.



Activity

- **Social Environment** Discuss with your parent and other relatives and find out the changes in their consumption habits over the last five years. Analyse the impact of these changes on business.

7.3.3 POLITICAL ENVIRONMENT

All business firms are affected by the government and its policies. Political forces decide the nature of business, programmes and projects to be undertaken for development of the country. Political environment includes stability and peace in the country, specific attitudes of elected representative. Political stability gives the signal of strength, confidence to various interest groups and investors in the long term projects. Similarly, ideology of the political parties influences the business organization and attitudes of government officials towards business has an impact on business.

India is the democratic country, Indian political system comprises three vital institutions like Legislature, Government and Judiciary.

1. **Legislature:** Legislature is very powerful because powers such as policy making, law making, budget approving, executing control etc. are in the hands of legislature.
2. **Government:** For business consideration, we should know what are government's responsibilities towards business. Government policies does affect business organization. Therefore government should frame policies for business organization.
3. **Judiciary:** Judiciary is the third important institution in political system. It determines the method of working of government and defines the relationship between government and citizens .

7.3.4 ECONOMIC ENVIRONMENT

The survival and success of business firm fully depends on economic environment. The Economic environment comprises of economic condition, economic policies and economic system, basic economic philosophy, infrastructure, national income, money supply, saving stages in economic development and trade cycles are also the major factors which make up the total economic environment. Some important factors are as follows :

Economic Condition: The economic condition of the nation refers to the present state of economy in the country or region. Economic condition of the nation is based on the gross domestic product, per capita income, availability of capital, growth of foreign trade and strength of capital market.

Economic policies: All business activities are directly influenced by the economic policies which are framed by the government from time to time. Government keeps on changing these policies keeping the development in view. Industrial policy, monetary policy, foreign investment

policy, export-import policy, agricultural policy, education policy and public expenditure policy are important economic policies. Every business must function strictly within the policy framework and respond to the change therein.

Economic system: The scope of private business and the extent of government regulation of economic activities depend on the nature of economic system i.e. capitalist, socialist and mixed.

- A) **Capitalist Economy** -This economy is also known as free market economy. This system stresses on individualism which believes in private ownership. e.g. U. S. A.
- B) **Socialist Economy** - In this economic system factors of productions are organized, managed and owned by government. Socialist economy does involve an equal division of existing wealth among the people.
- C) **Mixed Economy** - Factors of production are jointly owned by government and private individuals. e.g. India

7.3.5 TECHNOLOGICAL ENVIRONMENT

Technological environment consists of the methods and techniques adopted for production. The varying technological environment affect the designing of products. Technology is the most dramatic force shaping the destiny of people and business. Technological changes are fast and business should be ever alert to adopt technological changes from time to time.

It may be noted that scientific research for innovation in product and services is a regular activity in business firm. Because now a days no firm can afford to persist with the outdated technologies.

E.g. Digital India, initiative by Government of India.



Activity

- **Technological Environment :** Visit to the post offices, banks and other offices in your area and make note of changes that have taken place due to the change in information technology.

7.3.6 LEGAL ENVIRONMENT

Business in a country can be started, regulated, controlled and expanded only within the legal framework of a country. In this connection all countries of the world have a separate set of laws for the control and direction of business. All business managers should have the knowledge of law for taking decision.

Some important laws influencing the business are:

- i. Indian Contract Act, 1872 (2017)
- ii. Workmen's Compensation Act, 1923 (2010)
- iii. Industrial Dispute Act, 1947 (2016)
- iv. Standards of Weight and Measures Act, 1969 (2016)
- v. Consumer Protection Act, 1986 (2018 proposed)
- vi. Competition Act, 2002

Years in the bracket either denotes amendments or proposed amendments in the act.



Activity

- **Legal Environment** : Visit to the retailer in your area and make note of changes that have taken place due to the GST and ban on plastic bags.

7.4 NEW ECONOMIC POLICY AND BUSINESS

India's post independence industrial development policy failed, so the government introduced the New Economic Policy on 24th July, 1991 known as liberalization, privatization and globalization (LPG policy).

Liberalization: Government of India adopted the policy of liberalization while facing a severe crisis. Liberalization refers to the process of eliminating unnecessary controls and restrictions for smooth functioning of business.

Through the liberalization process Indian economy has opened up and started interacting with the world in a large way. This has resulted into easy entry of foreign business in India, tough competition and efficiency.

□ Indian economic liberalization includes the following:

1. Abolishing Industrial Licensing System.
2. Reduction in physical restrictions on import and import duties.
3. Reformation of financial system.
4. Reduction in taxation.
5. Reduction in controls on foreign exchange.
6. Changing the approach towards industrial sickness.
7. Freedom to decide the scale of business activities.
8. Attracting foreign investment.
9. Freedom in fixing prices of goods and services.
10. Opening of basic telecommunication sectors.

Liberalization helps in achieving a high growth rate, easy availability of goods at competitive rates, high foreign exchange reserve, strong rupee, and good industrial relation etc.

Privatisation: Privatisation refers to reduce the involvement of state or public sectors by involving of private sector in economic activities. Privatization implies many government sectors to be sold or given to private individual hands to run them.

□ Need for privatization:

1. More Efficiency
2. Less political Interference
3. Reduction in labor problem
4. Ensuring accountability
5. Capital Market discipline

❑ **Privatization includes the following.**

1. Reduction in number of industries reserved for the public sector and introduction of selective competition in the reserved area.
2. Disinvestment of shares of selected public sector in order to raise resources and to encourage wider participation of general public and workers in the ownership of business.
3. Improvement in performance through MOU (Memorandum of Understanding) system.

Privatization is an effective tool for restructuring and reforming the public sector which runs without significant aim and mission while private sector is perceived to be fundamentally more self motivated, profitable and reliable for superior quality of products and services.

Globalisation: Globalisation means integration of national economy and societies through cross country flows of information, ideas, technologies, goods, services, capital, finance and people.

In other words globalization means a ‘boundary less world’. All nations would be interdependent leading to better interactions regarding improvements in the global economy.

Globalization has a serious implication on socio-economic and political sphere of life.

❑ **Globalization includes the following:**

1. Removing anti export biasness.
2. Minimization of very high import tariffs.
3. Placing lesser reliance on quantitative restrictions on imports.

❑ **Features of globalization:**

1. Freedom to set and operate business anywhere in the world.
2. Buying and selling goods from/ to any country of the world.
3. To lessen the distance between the local and international market.
4. Direct foreign participation.
5. Exchange of the new ideas and technology across the world.

❑ **Positive Impact of Globalization:**

1. Global agreement in trade.
2. Spreading the market and economic policies around the world.
3. Physical and geographical boundaries are diminished and world become a global village.
4. Customers are only concerned about the product quality, price, design, value and appeal.
5. Globalization has created an economically interdependent international environment.
6. Increased the trend towards privatization of manufacturing and service sector.

7.5 IMPACT OF NEW ECONOMIC POLICY ON BUSINESS

1. Increase in the competition in various firms.
2. More demanding customers.
3. Tremendous changes in technological environment.
4. Necessity for change.
5. Need for developing human resource.
6. The customer oriented market.

7. Discontinuation budget support by the government.
8. Business organizations must work hard in order to survive.
9. Necessity of the expertise in various field.

SUMMARY

Business environment connotes internal as well as external forces, factors and institutions. Some of them can be controlled and are beyond the control of the business and they affect the functioning of the business.

Bayard O. Wheeler: “The total of all things external to firm and industries which affect their organization and operation is called as Business Environment.”

- **IMPORTANCE OF BUSINESS ENVIRONMENT**

1. Determining opportunities and threats.
2. Giving direction for growth.
3. Continuous learning.
4. Image Building.
5. Meeting competition.
6. Identifying firm's strengths and weaknesses.

- **DIMENSIONS OF BUSINESS ENVIRONMENT**

- **Natural environment:**

The natural environment of business consist of factors like climate, minerals, soil, landforms, rivers and ocean, natural resources, etc. which have considerable influence on the functions of business.

- **Social environment:**

The social environment of business consists class structure of the society. Class structure depend upon the occupation, education, income level, social status, attitude towards living, their attitude towards business and social culture. The culture includes aspects, customs, traditions, values, ethics, beliefs, social trends, poverty, literacy, life expectancy rate and other accepted behavior patterns.

- **Political environment:**

Political environment includes stability and peace in the country, specific attitudes of elected government, ideology of the political parties. Indian political system comprise three vital institutions like Legislature, Government and Judiciary.

- **Economic environment:**

In economic environment the main affecting factors are economic condition, economic policies and economic system. With this planning, basic economic philosophy, infrastructure, national income, money supply, saving stages in economic development and trade cycles are also the major factors which make up the total economic environment.

- **Technological environment:**

Technological environment consist the methods and techniques adopted for production. The varying technological environments affect the designing of products. It may be noted that scientific research for innovation in product and services is a regular activity in business firm.

- **Legal environment:**

A business can be started and nurtured to grow into big business only within the legal framework of laws, regulations and court decisions of the country.

- **New Economic Policy**

Liberalization: Liberalization refers to the process of eliminating unnecessary controls and restrictions on smooth functioning of business. Through the liberalization process Indian economy has opened up and started interacting with the world in a big way.

Privatization: Privatization refers to reduce the involvement of state or public sector by involving of private sector in economic activities. Privatization is an effective tool for restructuring and reforming the public sector running without significant aim and mission. As private sector is perceived to be fundamentally more self motivated and reliable for superior quality of products and services.

Globalization: Globalization means integration of economies and societies through cross country flows of information, ideas, technologies, goods, services, capital, finance and people.

- **Impact of Government policy changes on Business and Industry:**

1. Increasing competition.
2. More demanding customers.
3. Rapidly changing technological environment.
4. Need for developing human resource.
5. Market has become customer oriented.

- **Career Opportunities**

- 1) Financial Advisor
- 2) Legal Advisor
- 3) Tax Consultant
- 4) Technical Expert
- 5) Computer Operator (Data, Tally, Programming and office Automation)
- 6) Fashion designer
- 7) GST expert

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EXERCISE

Q.1 A) Select the correct option and rewrite the sentence.

- 1) Business environment has tremendous impact on
 a) business b) government c) Society
- 2) The new Industrial policy was formulated in
 a) 1947 b) 1951 c) 1991
- 3) Changes in ruling government is an aspect of environment.
 a) political b) technological c) economic
- 4) Literacy level is an aspect ofenvironment.
 a) social b) legal c) political
- 5) Privatization implies reduction in the role ofsector.
 a) public b) private c) foreign
- 6) Globalization is concerned with market.
 a) global b) local c) rural
- 7) means linking national economy to the world economy.
 a) Globalization b) Privatization c) Liberalization
- 8) Environment awareness providessignal.
 a) warning b) alarming c) soft

B) Match the pairs.

1)	Group 'A'		Group 'B'
	A) Globalization	1)	Profit motive
	B) Privatization	2)	2006
	C) Liberalization	3)	Borderless economy
	D) New economic policy	4)	Service Motive
	E) Social Environment	5)	Internal factor
		6)	Disinvestment
		7)	Social Values
		8)	1991
		9)	Abolishing license policy
		10)	GATT

2)

Group 'A'		Group 'B'	
A)	Internal environment	1)	Knowledge of law
B)	Political environment	2)	Taxation policy
C)	Legal environment	3)	Technology
D)	Economic environment	4)	Traditions
		5)	WTO
		6)	Controlled by business
		7)	High cost
		8)	Ideology of political party

C) Give one word/phrase/term for the following sentences.

- 1) Uncontrollable factors of the business environment.
- 2) The environment of business that includes customs and traditions, values, social trends.
- 3) The process of transferring ownership of business enterprise, agency or public service from the public sector to private sector.
- 4) A boundary less world where there would be free flow of goods, services, information, capital and people across nation.

D) State True or False.

- 1) External factors of business environment are controllable factors.
- 2) Business is the product of different environmental factors.
- 3) Business and environment are inseparable parts.
- 4) There is no benefit of globalization to Indian economy.
- 5) New economic policy promoted the liberal economic policy.
- 6) There is no benefit of privatization to Indian economy.
- 7) There is no need of consideration of the business environment factors in business.

E) Complete the sentence.

- 1) The term of Business Environment generally refers to
- 2) helps the business enterprises for overcoming challenges successfully.
- 3) Geographical and Ecological factors are included in Environment.
- 4) Literacy is the important part of Environment.
- 5) Stability and peace in the country includes in Environment.
- 6) Indian political system comprises vital institutions.
- 7) Limited involvement of government in public sector refers to
- 8) Integration of economy and society through cross country is called as

F) Select the correct option.

- 1) In how many types environmental factors can be classified?
(Two / Three / Four)
- 2) Which factors of Business Environment regards as controllable?
(Internal / External)
- 3) Who frames the economic policy of the business?
(Government / Business / citizen)
- 4) Which economic system is known as free market economy?
(Socialist / Mixed / Capitalist)

G) Correct the underlined word and rewrite the following sentence.

- 1) External factors of business environment are controllable.
- 2) Internal factors of business are beyond control.
- 3) Natural resources are related to political environment.
- 4) Privatization helps for global village.

H) Answer in one sentence.

- 1) Which factors are included in internal environment?
- 2) What are the powers of legislature?
- 3) Which factors influence the economic condition of the Nation?
- 4) Who possess the factors of production in socialist economy?
- 5) In which environment are the methods and techniques of production included?
- 6) When did Indian government launch New Economic Policy?
- 7) What is useful to reduce political interference in industry?
- 8) How is the boundary less world possible?

Q.2 Explain the following terms/concepts.

- 1) Business environment.
- 2) Liberalization.
- 3) Privatization.
- 4) Globalization.
- 5) Social environment.
- 6) Economic environment.
- 7) Political environment.
- 8) Internal environment.

Q.3 Study the following case/situation and express your opinion.

- 1) 1) The court passes an order to ban polythene bags as the bags are creating many environmental problems which affects the life of people in general.
2) Society in general is more concerned about quality of life. The government decided to give subsidy to jute industry to promote this business.
i) Why does the court ban Polythene bags?
ii) Identify the dimension of business environment.
iii) How does the Government try to promote jute industry?
- 2) Anchor company manufacturing light tubes increased expenditure on Scientific Research and Development and discovered a technology that made it possible to produce an energy efficient light tubes that lasts at least twenty times as long as a standard tubes. It resulted in growth and profitability of the company.
i) How did company come to know about new technology?
ii) Identify the dimension of business environment.
iii) What was the effect of considering business environment?
- 3) Make in India is an initiative launched by the government of India. It focuses on job creation and skill development and it is in twenty five sectors of the economy. Under the initiative, brochures on these sectors and web portal were released. The initiative aims at

high quality standards and minimizing the impact on environment. It also seeks to attract foreign capital investment in India.

- i) Name the initiative launched by Indian Government for skill development.
- ii) Identify dimension of business environment.
- iii) Name any one benefit of the initiative.

Q.4 Distinguish between.

- 1) Social environment and Economic environment
- 2) Political environment and Legal environment
- 3) Liberalization and Privatisation
- 4) Globalization and Liberalization
- 5) Privatization and Globalization

Q.5 Answer in brief.

- 1) State any four factors of social environment.
- 2) Describe any two factors of economic environment.
- 3) State any four features of globalization.
- 4) State any four reason of need for privatization.

Q.6 Justify the following statements.

- 1) External factors of business environment are beyond control.
- 2) Business firm should be aware of the changes in society.
- 3) Political stability builds up confidence among business people.
- 4) Economic environment has direct influence on business.
- 5) Social trends provide business opportunities.
- 6) An adequate knowledge of rules and regulations is essential for better business performance.

Q.7 Attempt the following.

- 1) Importance of business environment.
- 2) Social environment.
- 3) Economic environment.
- 4) Political environment.
- 5) Impact of new economic policy on business and industry.

Q.8 Answer the following.

- 1) What is business environment? Explain the importance of business environment.
- 2) Explain the new economic policy in details.

