

Chapter – 3

Business Environment

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 enterprises but that may affect its performance.

Environment Scanning – The complete awareness and understanding of business environment is known as environment scanning.

❖ Characteristics of Business Environment –

1. Totality of external forces
2. Specific & general forces
3. Inter-relatedness
4. Dynamic Nature
5. Uncertainty
6. Complexity
7. Relativity

❖ Importance of Business Environment

1. It enables the firm to identify opportunities and getting the first move advantage .
2. It helps the firm to identify threats and early warning signals.
3. It helps in tapping useful resources.
4. It helps in coping with rapid changes.
5. It helps in assisting in planning and policy formulation.
6. It helps in improving performance.

Components of Business Environment

Internal/ Specific Environment

Customers

Owners & Investors

Suppliers

Creditors

Employees and Trade union

Competitors

External/ General Environment

Economic environment

Social environment

Political environment

Technological environme

Legal environment



The main objective of **New Industrial Policy** was to promote **Liberalization, Privatization and Globalization**.

Liberalization:-It means freeing of Indian Industry from all unnecessary government controls and restrictions.

- Abolishing licensing requirements;
- Freedom in deciding the scale of business;
- Removals of restriction on movements of goods and service;
- Reduction in tax rates;
- Freedom in fixing prices;
- Simplifying procedures;
- Making it easier to attract foreign investment.

Privatization

- Giving greater role to private sector in the nation building process and reduced role of public sector;
 - Disinvestment in many Public Sectors undertaking etc.
 - Setting up of BIFR to revive sick units in public sector enterprises suffering losses.
 - It aimed at improving efficiency and performance of government undertakings,
- Reducing budgetary deficit & better utilization of national resources.

Globalization:- It means integration of various economies of the world leading to the emergence of cohesive global economy. The measures taken by the Government include trade liberalization which includes

- Import liberalization;
- Export Promotion through rationalization of tariff structure;
- Foreign exchange liberalization;
- Increased interaction among global economies under the aegis (protection/support) of World Trade Organization. It resulted in addition of Export duty, Reduction of import.

❖ Impact of Government Policy Changes on Business and Industry

- i. Increasing Competition
- ii. More Demanding Customers
- iii. Rapid Changing Technological Environment:
- iv. Necessity for Change
- v. Need for Developing Human Resources
- vi. Market Orientation
- vii.Reduction in budgetary Support to Public Sector:



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Subject-Business Environment



Question 1:

The market is flooded with better quality toys of foreign origin. The result is fall in revenue of the indigenous or local companies as their products are much inferior and are also costlier in less demand in the market.

Which dimension of Business Environment can be seen here affecting the local companies' revenue?

Answer:

The dimension of Business Environment which is affecting the indigenous companies is **Technological Environment**. Since the products are technologically advanced they are replacing the locally made inferior products.

Question 2:

The sale of sarees increases in the months of the year when a large number of marriages take place in India. The saree manufacturing companies make special plans of sale for these months.

Which dimension of business environment comes into picture here?

Answer:

The dimension of business environment which is covered here is the **“Social”** dimension of business environment as marriages come under the social dimension.

Question 3:

Advertisements of a protein supplement must inform the potential buyer that the product if taken beyond a given dose can be harmful to the diabetics. Which dimension of business environment is highlighted here?

Answer:

The dimension of business environment which is highlighted here is the “**Legal**” environment as it comes under the legal laws to clearly state the necessary information as directed by the government.

Question 4:

Identify the various dimensions of business environment:

- With the election of a new government the sensdex drops by 748 points.
- A particular channel refrains from showing the advertisement of a particular product as it is banned by the government.
- A software is in high demand among the industrial buyers as it can connect all the branches of a company as a single integrated unit.
- At the time of holi a large number of manufacturing firms get involved in making colours which are used in the celebration of this colourful festival.
- It is not advisable to open a luxury car showroom in the middle of an economy where per capita income is very low.





Answer:

The various dimensions of business environment highlighted above are:

- Political environment.
- Legal environment.
- Technological environment.
- Social environment.
- Economic environment.

Question 5:

ABCDE Ltd. has opened a customized shoe business in 23 cities. The organisation has done a lot of research on the nature of business environment in which it is doing business. The market has fragmented as there are many players, brand loyalties of the customers keep on changing, customers are more demanding and there is intense competition in the market. Every week on Saturday the board of directors sits for a meeting and decides the future course of action. They rely on their surveys and past performances of other companies to achieve policy making and deciding future course of action. The company devotes its lot of time in understanding the external environment. With all the research the company has realised that the business environment does tend to have a lot of impact on the organisation so it is necessary to continuously monitor it.

Name the various importance of management highlighted above?

Answer:

The various importance of business environment highlighted above:

- **It helps in coping with rapid changes.** The market has fragmented as there are many players, brand loyalties of the customers keep on changing, customers are more demanding and there is intense competition in the market.
- **It helps in planning and policy formulation.** They rely on their surveys and past performances of other companies to achieve policy making and deciding future course of action.
- **It helps in improving performance.** With all the research the company has realised that the business environment does tend to have a lot of impact on the organisation so it is necessary to continuously monitor it.