



BUSINESS ENVIRONMENT

Que. What is business environment?

Ans. 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 effect its performance.

Anything that have either positive or negative impact on business is known as business environment.

Que. Explain feature of business environment.



1.Totality of external forces: Business environment is the sum total of all the forces and factors external to a business firm.

2.Specific and general forces: Business environment includes both specific and general forces. Specific forces include investors, competitors, customers etc. who influence business firm directly while general forces include social, political, economic, legal and technological conditions, which affect a business, firm indirectly.

3.Inter-relatedness: Different elements or parts of a business environment are closely interrelated. For example, increased awareness for health care has raised the demand for healthy oil free food and healthy lifestyle.

4.Dynamic:- Business environment is very dynamic in nature it keep changing rapidly. Such as change in taste of customer, technology it keeps changing very fast.

5. Uncertainty: Business environment is largely uncertain, as it is difficult to predict the future happenings. Such as, frequent environmental changes in the field of technology and fashion industry.

6.Complexity: Business environment is complex phenomenon, which is easier to understand in parts, but it is difficult to understand in totality. Since the business environment consists of various interrelated and dynamic forces, it is difficult to understand the constituents of a given environment.

7.Relativity: Business environment is a relative concept whose impact differs from country to country, region to region and firm to firm. For example there are more demand of wollen clothes in Greenland than India.

Que. Explain the importance of business environment.

Ans.1.**Business environment enables the firm to Identify opportunities to get the first mover advantage.**Environment provide various opportunities for business success. Understanding it helps an organization in identifying advantageous opportunities and exploiting benefits prior to competitors.

2.It helps the firm to Identify threats and early warning signal: Environmental awareness can help managers of an organization to identify various threats on time and serve as an early warning signal. For example, Bajaj Auto made considerable improvements in its two wheelers when other companies entered the auto industry.

4.It helps in tapping useful resources: Business Environment is a source of various resources such as man, machine, money, raw material, power etc. to a business firm. By understanding the business environment an enterprise can design policies to acquire the required resources and convert them into output that environment desires.

4. It helps in coping with rapid changes: Business environment is very dynamic where changes are taking place at a fast pace. Changes such as turbulent market conditions, less brand loyalty etc. In order to cope with significant changes managers must understand, examine, and develop a suitable course of action.

5. It helps in assisting in planning and policy formulation: Understanding and analysis of business environment can be the basis for planning & policy formulation in an organisation.

6. It helps in improving performance: The enterprise that continuously monitor the environment and adopt suitable business practices are the ones, which not only improve their performance but also continue to succeed in the market for a long period.

Que. Explain different types of dimension of business environment.



1.Economic environment:- It refers to all the forces and factors which directly influence the economy of our country. Such as Interest rates, inflation rates, changes in disposable income of people, stock market indices, Gross Domestic Product

Some aspects of Economic Environment are:-

1.Increase in GDP results in rise in disposable income of people and further increases in demand for products.

2.High inflation rate is set as a constraint as it increases the cost of production.

3.Decreases in interest rates are beneficial and increase demand for home loans and borrowing money.

4.Demonetization of Rs.500 and Rs.1000 notes recently hit the Indian economic environment.

5. Recent changes in the economic and fiscal policy of the country.

2.Social Environment:-The social environment of business includes 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. For example, the celebration of Diwali, Eid, Christmas, and Guru Parv in India provides significant financial opportunities for greeting card companies, sweets or confectionery manufacturers, tailoring outlets and many other related businesses.

Some aspects of Social Environment are:-

1.Change in quality of life.

2.Importance or place of women in the workforce.

3.Attitude of customers towards innovation, lifestyle etc.

4.Tradition, customs, and habits of people.

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. For example, recent technological advances in computers and electronics have modified the ways in which companies advertise their products.

For example of recent technological changes which have affected Indian businesses

1.Shift from vacuum tubes to transistors.

2.Shift from typewriter to word processor.

3.Online sale of grocery items is becoming very common.

4.Political Environment:- It refers to all the factors related to the government affairs such as type of government in ,attitude of government towards different groups of societies.

The common factors and forces which have influenced the Indian political environment are:-

1. Government intervention in business.
2. Foreign policy of the government.
3. Values and ideology of political parties.

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— center, state or local.

Some Aspects of Legal environment are as follows:-

1. Legal policies related to licensing and foreign trade.
2. Statutory warning essentials to be printed on label.
3. Laws keep a check on advertisements.

Que. Explain major components or elements of new economic policy.

Ans. There are three major components of new economic policy:-

1. Liberalisation:- Liberalization refers to the process of reducing or removing government regulations and restrictions on economic activity, trade, and commerce.

It relaxed the rules and regulations which restricted the growth of the private sector and also allowed the private sector to take part in the economic activities that were exclusively reserved for the government sector.

Liberalisation of the Indian industry has taken place with respect to:

a. Abolishing licensing requirement in most of the industries except a short list,

b. Freedom in deciding the scale of business activities i.e., no restrictions on expansion or contraction of business activities,

c. Removal of restrictions on the movement of goods and services

d. Freedom in fixing the prices of goods services

e. Reduction in tax rates and lifting of unnecessary controls over the economy,

f. Simplifying procedures for imports and exports, and

g. Making it easier to attract foreign capital and technology to India.

2.Privatization:-Privatization refers to the process of transferring ownership and control of government-owned assets or services to private entities. The new set of economic reforms aimed at giving greater role to the private sector in the nation building process & reduced role to the public sector.

To achieve privatization in India, the government redefined the role of the public sector in the new industrial policy of 1991, adopted the policy of planned disinvestments of the public sector, and decided to refer the loss making and sick enterprises to the Board of Industrial and Financial Reconstruction.

- Divestment means transfer of ownership of a public sector enterprise to a private enterprise.

- If there were dilution of Government ownership beyond 51 percent, it would result in transfer of ownership and management of the enterprise to the private sector.

3.Globalization:- Integration of the various economies of the world leading towards the emergence of a cohesive global economy. In simple words globalization means interaction and interdependence of a country with the economies of other countries to facilitate free flow of goods and services, capital and technology across borders.

A truly global economy implies a boundary less world where there is:

a. Free flow of goods and services across nations;

b. Free flow of capital across nations;

c. Free flow of information and technology;

d. Free movement of people across borders;

Que. Impact of change in economic policy on the business.

Ans. 1. **Increasing Competition:** Changes in the rules of industrial licensing and entry of foreign firm's Indian market have increased market competition in India.

2. More Demanding Customers: Well-informed customers are more demanding. Increased competition in the market gives customers a wider choice of quality products at reasonable prices.

3. Rapidly Changing Technological Environment: Increased competition forces the firms to develop new ways to survive and grow in the market.

4. Necessity for Change: After 1991, the market forces have become turbulent, as a result of which the enterprises have to continuously modify their operations.

5. Need for Developing Human Resources: The changing market conditions of today require people with higher competence and greater commitment, hence there is a need for developing human resources.

6. Market Orientation: Earlier firms followed production oriented marketing operations. Today firms produce those goods & services as per the requirements of the customers.

7.Export a matter of survival:- The Indian businessman was facing global competition and the new trade policy made the external trade very liberal. As a result, to earn more foreign exchange, many Indian companies joined the export business and got a lot of success in that.

Que. What is demonetization ?

Demonetization is the process by which a currency is withdrawn from circulation and replaced with a new currency. The Government of India, made an announcement on November 8, 2016 with profound implications for the Indian economy. The two largest denomination notes, ₹500 and ₹1,000, were 'demonetised' with immediate effect, ceasing to be legal tender except for a few specified purposes such as paying utility bills. The invalid currency in the banks which came along with the restrictions placed on cash withdrawals. In other words, restrictions were placed on the convertibility of domestic money and bank deposits. The aim of demonetisation was to curb corruption, counterfeiting the use of high denomination notes for illegal activities; and especially the accumulation of 'black money' generated by income that has not been declared to the tax authorities.

Que. Explain different Features of demonetization.

Features of demonetization are as follows:-

1.Demonetization as a tax administration measures:-Cash holdings arising from declared income were readily deposited in banks and exchanged for new notes. But those with black

money had to declare their unaccounted wealth and pay taxes at a penalty rate.

2.Non tolerance of tax evasion:-Demonetisation is also interpreted as a shift on the part of the government indicating that tax evasion will no longer be tolerated or accepted.

3.Tax administration and channelising savings into the formal financial system:- Demonetisation also led to tax administration channelizing savings into the formal financial system. Though much of the cash that has been deposited in the banking system is bound to be withdrawn, some of the new deposit schemes offered by the banks will continue to provide base loans, at lower interest rates.

4.Creating less cash or digital cash lite economy:- Less-cash or cash-lite economy, i.e., channeling more savings through the formal financial system and improving tax compliance.