

CBSE CLASS 12 BUSINESS STUDIES

CHAPTER – 3

BUSINESS ENVIRONMENT

REVISION NOTES

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 effect its performance.

- The economic, social, political, technological and other forces, which operate outside a business enterprise, also form part of the business environment.
- The organisation must be aware of the external forces and institutions and must be dynamic to adapt itself to the changing external environment.
- The organisation must set goals and formulate plans and procedures based on the changing external business environment.

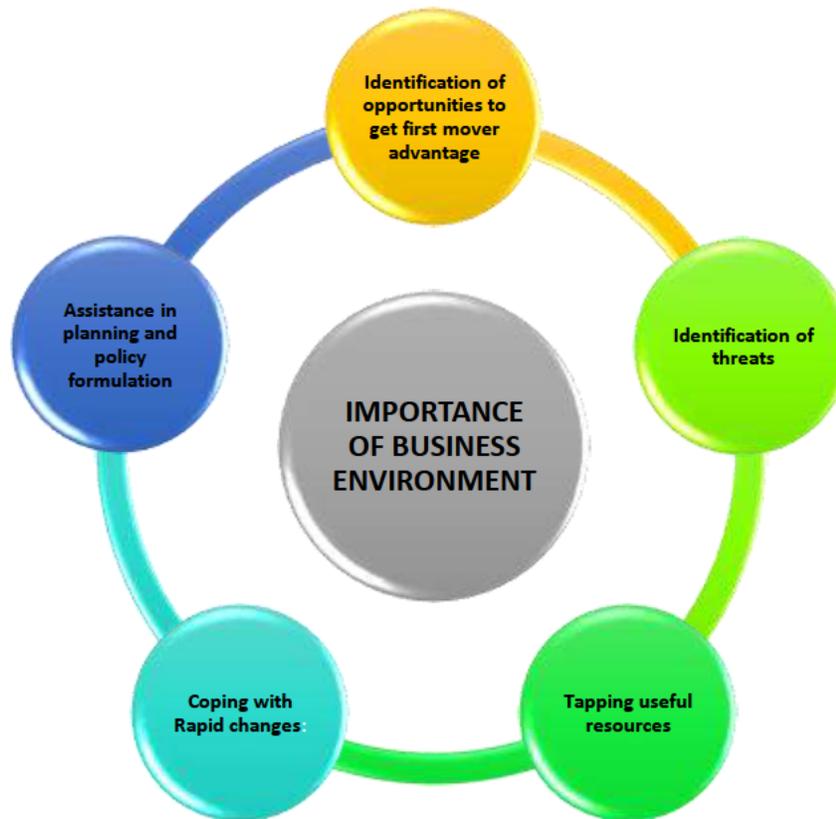
FEATURES OF BUSINESS ENVIRONMENT



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 dynamic in which it keeps on changing with the change in technology, shift in consumer preferences etc.
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.

IMPORTANCE OF BUSINESS ENVIRONMENT



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.
3. **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.

DIMENSIONS OF BUSINESS ENVIRONMENT

Business Environment



1. **Economic Environment:** It has immediate and direct impact on a business. Rate of interest, inflation rate, change in disposable income of people, monetary policy, stock market indices etc. are some economic factors, which could affect business firms.

Increase or decrease of the economic factors result in opportunities or constraints on a business enterprise.

2. **Social Environment:** Business environment includes various social forces such as customs, beliefs, literacy rate, educational levels, lifestyle, values etc. Social trends present various opportunities and threats to business enterprise.

Example the celebration of Diwali, Eid and Christmas in India provide financial opportunities for confectionery manufacturers, garments businesses and many other related businesses.

3. **Technological Environment:** It includes forces relating to scientific improvements and innovations, which provide new ways of producing goods and services and new methods and techniques of operating business. A businessman must closely monitor the technological changes taking place in the industry as it helps in facing competition and improving quality of the product.

Example, demand for LED smart HD tv's instead of LCD tv's, Use of artificial intelligence in various companies etc.

4. **Political Environment:** It includes political conditions such as general stability and peace in the country and the attitude of the elected government representatives hold towards businesses. Political stability builds confidence among business community while political instability and bad law & order situation may bring uncertainty in business activities.

Example: Bangalore is called as the silicon valley of India due to the favorable political conditions provided by the state government to the IT industries.

5. **Legal Environment:** It includes various laws and legislations passed by the Government, administrative orders, court judgements, decisions of various commissions and agencies at every level of the government center, state or local. Businessmen have to act according to various legislations and their knowledge is very necessary.

Example: Advertisement of Alcoholic beverages is prohibited.

ECONOMIC ENVIRONMENT IN INDIA

As per the economic planning the government gave lead role to the public sector for infrastructure industries whereas the private sector was broadly given the responsibility of developing consumer goods industry. At the same time, the government imposed several restrictions, regulations and controls on the working of private sector enterprises. India's experience with economic planning has delivered mixed results. In 1991 the economy faced a serious foreign exchange crisis, high government deficit and a rising trend of prices despite bumper crops.

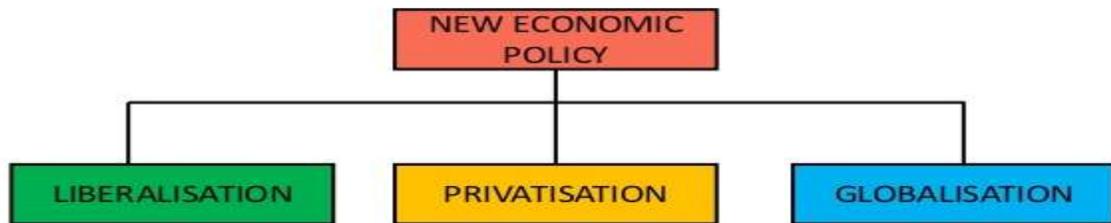
As a part of economic reforms, the Government of India announced New Economic Policy in July 1991 for taking out the country out of economic difficulty and for the development of the country.

The features of economic policy 1991 are as follows:

1. Reduced number of industries to six, under compulsory licensing scheme.
2. The role of public sector was limited to four industries of strategic importance.
3. Disinvestment was carried out in case of many public sector enterprises.
4. Policy towards foreign capital was liberalized and in many sectors, 100% direct foreign investment was allowed.
5. Automatic permission was granted for signing technology agreements with foreign companies.
6. Foreign investment promotion board (FIPB) was setup to promote & channelize foreign investment in India.

The main strategies of new economic policy of 1991:

BRANCHES OF NEW ECONOMIC POLICY



1. LIBERALISATION:

The economic reforms that were introduced aimed at liberalizing the Indian business and industry from all unnecessary controls and restrictions. 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. 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. The government adopted the policy of divestment and transfer of ownership.

- 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. GLOBALISATION:

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.

Till 1991, the Government of India had followed a policy of strictly regulating imports in value and volume terms. These regulations were with respect to (a) licensing of imports, (b) tariff restrictions and (c) quantitative restrictions.

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;
- e. A common acceptable mechanism for the settlement of disputes;
- f. A global governance perspective.

DEMONETISATION:

The Government of India, made an announcement on November 8, 2016 with profound implications for the Indian economy. The two largest denomination notes, `500 `1,000, were ‘demonetised’ with immediate effect, ceasing to be legal tender except for a few specified purposes such as paying utility bills. This led to eighty six per cent of the money in circulation invalid. The people of India had to deposit 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 main aim was to curb corruption, black money and illegal activities.

FEATURES OF DEMONETISATION:

1. Demonetisation is viewed as a tax administration measure. Cash holdings arising from declared income was readily deposited in banks and exchanged for new notes. But those with black money had to declare unaccounted income and pay tax penalty was imposed.
2. 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. Demonetisation also led to tax administration channelizing savings into the formal financial system.
4. Another feature of demonetization is to create a less-cash or cash-lite economy, i.e., channeling more savings through the formal financial system and improving tax compliance.

Impact of Demonetisation

1.	Money/Interest rates	i. Decline in cash transactions ii. Bank deposits increased iii. Increase in financial savings
2.	Private wealth	Declined since some high demonetised notes were not returned and real estate prices fell
3.	Public sector wealth	No effect
4.	Digitisation	Digital transactions amongst new users (RuPay/AEPS) increased
5.	Real estate	Prices declined
6.	Tax collection	Rise in income tax collection because of increased disclosure

Adapted from Economic Survey, 2016-17

IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY



IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY

- Increasing Competition
- More Demanding Customers:
- Rapidly Changing Technological Environment:
- Necessity for Change:
- Need for Developing Human Resources:
- Market Orientation:
- Loss of budgetary Support to the Public Sector:

1. **Increasing Competition:** Changes in the rules of industrial licensing and entry of foreign firm's Indian market has increased market competition in India.
2. **More Demanding Customers:** Well-informed customers are more demanding. Increased competition in the market gives customer wider choice of quality products at reasonable price.
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 requires 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. **Loss of budgetary Support to the Public Sector:** The budgetary support given by the central government to the public sector had declined to a considerable extent. Thus in order to survive, the public sector have to be more efficient generate their resources and profits.