The meaning and importance of business environment

Meaning of Business Environment

Environment of a business means the external forces influencing the business decisions. They can be forces of economic, social, political and technological factors. These factors are outside the control of the business. The business can do little to change them.

Following features:

Totality of external forces: Business environment is the sum total of all things external to business firms and, as such, is aggregative in nature.

(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.

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

Uncertainty: Business environment is largely uncertain as it is very difficult to predict future happenings, especially when environment changes are taking place too frequently as in the case of information technology or fashion industries.

Relativity: Business environment is a relative concept since it differs from country to country and even region to region. Political conditions in the USA, for instance, differ from those in China or Pakistan. Similarly, demand for sarees may be fairly high in India whereas it may be almost non-existent in France.

Importance of Business Environment

firm to identify opportunities and getting the first mover advantage: Early identification of opportunities helps an enterprise to be the first to exploit them instead of losing them to competitors. For example, Maruti Udyog became the leader in the small car market because it was the first to recognize the need for small cars in India.

firm to identify threats and early warning signals: If an Indian firm finds that a foreign multinational is entering the Indian market it should gives a warning signal and Indian firms can meet the threat by adopting by improving the quality of the product, reducing cost of the production, engaging in aggressive advertising, and so on.

Coping with rapid changes: All sizes and all types of enterprises are facing increasingly dynamic environment. In order to effectively cope with these significant changes, managers must understand and examine the environment and develop suitable courses of action.

Improving performance: 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.

Dimensions of Business Environment

What constitutes the general environment of a business?

The following are the key components of general environment of a business.

Economic environment economic environment consists of economic factors that influence the business in a country. These factors include gross national product, corporate profits, inflation rate, employment, balance of payments, interest rates consumer income etc.

Social environment It describes the characteristics of the society in which the organization exists. Literacy rate, customs, values, beliefs, lifestyle, demographic features and mobility of population are part o the social environment. It is important for managers to notice the direction in which the society is moving and formulate progressive policies according to the changing social scenario.

Political environment It comprises political stability and the policies of the government. Ideological inclination of political parties, personal interest on politicians, influence of party forums etc. create political environment. For example, Bangalore established itself as the most important IT centre of India mainly because of political support.

Legal environment This consists of legislation that is passed by the parliament and state legislatures. Examples of such legislation specifically aimed at business operations include the Trade mark Act 1969, Essential Commodities Act 1955, Standards of Weights and Measures Act 1969 and Consumer Protection Act 196.

Technological environment It includes the level of technology available in a country. It also indicates the pace of research and development and progress made in introducing modern technology in production. Technology provides capital intensive but cost effective alternative to traditional labor intensive methods. In a competitive business environment technology is the key to development.

Economic Environment in India

In order to solve economic problems of our country, the government took several steps including control by the State of certain industries, central planning and reduced importance of the private sector. The main objectives of India's development plans were:

Initiate rapid economic growth to raise the standard of living, reduce unemployment and poverty;

Become self-reliant and set up a strong industrial base with emphasis on heavy and basic industries;

Reduce inequalities of income and wealth;

Adopt a socialist pattern of development – based on equality and prevent exploitation of man by man.

As a part of economic reforms, the Government of India announced a new industrial policy in July 1991.

The broad features of this policy were as follows:

The Government reduced the number of industries under compulsory licensing to six.

Disinvestment was carried out in case of many public sector industrial enterprises.

Policy towards foreign capital was liberalized. The share of foreign equity participation was increased and in many activities 100 per cent Foreign Direct Investment (FDI) was permitted.

Automatic permission was now granted for technology agreements with foreign companies.

Foreign Investment Promotion Board (FIPB) was set up to promote and channelise foreign investment in India.

Liberalization:

The economic reforms that were introduced were aimed at liberalizing the Indian business and industry from all unnecessary controls and restrictions.

They indicate the end of the licence-pemit-quota raj.

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

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

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

Removal of restrictions on the movement of goods and services,

Freedom in fixing the prices of goods services,

Reduction in tax rates and lifting of unnecessary controls over the economy, Simplifying procedures for imports and experts, and

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.

To achieve this, the government redefined the role of the public sector in the New Industrial Policy of 1991

The purpose of the sale, according to the government, was mainly to improve financial discipline and facilitate modernization.

It was also observe that private capital and managerial capabilities could be effectively utilized to improve the performance of the PSUs.

The government has also made attempts to improve the efficiency of PSUs by giving them autonomy in taking managerial decisions.

Globalisation:

Globalizations are the outcome of the policies of liberalisation and privatisation.

Globalisation is generally understood to mean integration of the economy of the country with the world economy, it is a complex phenomenon.

It is an outcome of the set of various policies that are aimed at transforming the world towards greater interdependence and integration.

It involves creation of networks and activities transcending economic, social and geographical boundaries.

Globalisation involves an increased level of interaction and interdependence among the various nations of the global economy.

Physical geographical gap or political boundaries no longer remain barriers for a business enterprise to serve a customer in a distant geographical market.

Impact of Government Policy Changes on Business and Industry

Increasing competition: As a result of changes in the rules of industrial licensing and entry of foreign firms, competition for Indian firms has increased especially in service industries like telecommunications, airlines, banking, insurance, etc. which were earlier in the public sector.

More demanding customers: Customers today have become more demanding because they are well-informed. Increased competition in the market gives the customers wider choice in purchasing better quality of goods and services.

Rapidly changing technological environment: Increased competition forces the firms to develop new ways to survive and grow in the market. New technologies make it possible to improve machines, process, products and services. The rapidly changing technological environment creates tough challenges before smaller firms.

Necessity for change: In a regulated environment of pre-1991 era, the firms could have relatively stable policies and practices. After 1991, the market forces have become turbulent as a result of which the enterprises have to continuously modify their operations.

Threat from MNC Massive entry of multi nationals in Indian marker constitutes new challenge. The Indian subsidiaries of multi-nationals gained strategic advantage. Many of these companies could get limited support in technology from their foreign partners due to restrictions in ownerships. Once these restrictions have been limited to reasonable levels, there is increased technology transfer from the foreign partners