

Business environment

A business can be established, but to successfully sustain a business, the business needs resources like finance, for which it has to depend on financial institutions. Acceptance of social norms, for which it has to depend on society. Proper market conditions, for which it has to depend on the market. The sale of products/services, for which it has to depend on the customers. The labour, for which it has to depend on society.

Then there are natural resources and raw material, for which it has to depend on Nature. Also, the legal support of the government, for which it has to depend on the government. There are many factors and dimensions that affect Business Environment. These factors are many different components of a single concept called Business Environment.

These factors which business depends upon aren't standstill, they are very dynamic and ever-changing. For example, trends, the trend of fidget spinners gave the biggest big push the silicone mold industry has ever received.

The changing needs of customers and new innovations in the market are a part of the business environment. The challenge for businesses in this technological era is not to enter the market but to survive in the market. To survive in the market means to adapt to the changes as fast as possible. To adapt to the changes means to be aware of the business environment.

Meaning of Business Environment

The definition of Business Environment, "The sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but the business still depends upon them as they affect the overall performance and sustainability of the business."

The forces which constitute the business environment are its suppliers, competitors, consumer groups, media, government, customers, economic conditions, market conditions, investors, technologies, trends, and multiple other institutions working externally of a business constitute its business environment. These forces influence the business even though they are outside the business boundaries.

Learn more about Global Integration and Business Environment.

For example, changes in taxes by the government can make the customers buy less. Here the business would have to re-establish its prices to survive the change. Even though the business had no involvement in initiating the change it still had to adapt to it in order to survive or use the opportunity to make profits. Now let us discuss the importance of the business environment.

Importance of Business Environment

(Source: LinkedIn)

On the basis of the foregoing discussion, it can be said that the Business Environment is the most important aspect of any business. To be aware of the ongoing changes, not only helps the business to adapt to these changes but also to use them as opportunities.

Business Environment presents threats as well as opportunities for any business. A good business manager not only identifies and evaluates the environment but also reacts to these external forces. The importance of the business environment can be neatly understood if we consider the following facts:

1. Enables to Identify Business Opportunities

All changes are not negative. If understood and evaluated them, they can be the reason for the success of a business. It is very necessary to identify a change and use it as a tool to solve the solve the problems of the business or populous.

For example, Mr. Phanindra Sama was troubled by the ticket booking condition in India. He used to travel a long distance to his travel agent to book his ticket but even after traveling this distance he was not sure if his seat was confirmed. He saw the opportunity to establish an app in the face of the problem and co-founded the online ticket booking app called 'redBus'.

2. Helps in Tapping Useful Resources

Careful scanning of the Business Environment helps in tapping the useful resources required for the business. It helps the firm to track these resources required for the business. It helps the firm to track these resources and convert them into goods and services.

Learn more about Micro Environment [here](#).

3. Coping with Changes

The business must be aware of the ongoing changes in the business environment, whether it be changes in customer requirements, emerging trends, new government policies, technological changes. If the business is aware of these regular changes then it can bring about a response to deal with those changes.

For example, when the Android OS market was blooming and the customers were preferring Android devices for its easy interface and apps, Nokia failed to cope with the change by not implementing Android OS on Nokia devices. They failed to adapt and lost tremendous market value.

4. Assistance in Planning

This is another aspect of the importance of the business environment. Planning purely means what is to be done in the future. When the Business Environment presents a problem or an opportunity, it is up to the business to decide what plan would it have to come up with in order to address the future and solve the problem or utilise the opportunity. After analysing the changes presented, the business can incorporate plans to counteract the changes for a secure future.

5. Helps in Improving Performance

Enterprises that are thoroughly scanning their environment not only deal with the changes presented but also flourish with them. Adapting to the external forces help the business to improve the performance and survive in the market.

Learn more about Macro Environment [here](#).

Solved Question for You

Q: Which of these is NOT A PART OF Business Environment?

Finance

Technology

Government

Planning

Media

Ans: The correct answer is “D” that is Planning. Planning is a response to the Business Environment and not a part of it.

Dimensions of Business Environment

As we learned that there are various forces that affect the business environment like suppliers, customers, investors, competitors, etc. Now let's understand the general forces that affect and shape the business environment. There are five general dimensions of the business environment. We will study each one of them in some detail.

Economic Environment

The Rate of Inflation: The simplest way to understand inflation is to see it as rising prices. If the economy is in the state of boom. Where business is flourishing and everyone is earning good amount of money which results in the increase in purchasing power of the consumer. This means that producer is able to sell his commodity at a high price in the market. Whereas, in a

state of depression in the economy, the purchasing and investing power of the customer falls down. As the firm can't influence the general factors of business environment, it has to change itself in order to survive the change. And producer has to re-establish the prices of his commodity for people to afford it.

Demand and Supply: When business identifies a profitable opportunity they are observing the existence of a potential demand for the product. And businesses which can foresee potential profits have an incentive to increase production. Demand and the supply of a commodity in the market influence the business environment enormously. This factor is based on the demand of a commodity in the market and the producer's ability to produce it on time.

Economic Policies: Government seek out to control the business environment in order to meet a range of objectives. These include stability and predictability, health and safety. Local, state and national policies affect the planning and operations of business deeply. Economic policies are drafted to direct the economic activities. They include import-export, employment, tax structure, industry, public expenditure, public debt, foreign investment, etc.

Social Environment

Culture and Traditions: In India, culture and traditions influence a majority of business. Traditions mean the social practices that have passed down from one generation to another. For example, Diwali, Christmas and Eid. These festivals prove to be a profitable period for electronics, sweets, greeting cards and restaurant businesses. The business should plan its strategies according to the traditions and social practices of a country.

Social Trends: Social trends in a society are proportional to the demand for the product. The example of the social trend is health and fitness. The products such as diet foods, diet drinks and fitness centres have given a new face to the industry of health and fitness.

Values: Values can be called as the standard society keeps about itself. Such as freedom, social justice and equal opportunities.

Legal Environment

The legal environment includes the laws passed by the government as well as the decisions rendered by the various commissions and agencies at every level of the government. It's important that every business must function according to the law of the area in which it wishes to operate.

Not obeying the rules can result in legal trouble for the business. In India, business firms are required to have complete knowledge of acts like Companies Act 1956, Consumer Protection Act 1986, Industrial Disputes Act 1947, and Competition Act 2002 and so on. For example, it is mandatory for tobacco companies to print 'smoking is harmful' on its products.

Technological Environment

The primary forces that are responsible for the improvement in the scientific field and new innovations being introduced in the market for improving the quality of goods and services and techniques for operating business more efficiently are known as technological factors in the

business environment.

Just like two sides of the same coin, technological changes are threats to some organisations and opportunities for other. The introduction of Television
Television was a major blow to the industry of Radio and Cinema industry. Mobile phones have snatched the market from Telephones.

These days, the online food delivery businesses are emerging in the market which is using smartphone technology that is 'Apps' to order food online. This is a major change in the food industry business and has affected the restaurant industry tremendously.

New innovations are occurring in medicine, telecommunications and biotechnology. Recent advancement in the market of Autonomous cars i.e Driverless cars is proving to be a major threat to the business of self-driving car industry.

Political Environment

This factor consists of external factors such as political stability and peace in the country. The foresight of the ruling party and its perspective towards business. Needless to say, the political environment is easily the most important dimension of the business environment.

As it decides what is the ideology of the party which is dominant in the country. For example, after globalisation India let foreign companies enter Indian market for giving a boost to different industries such as the food processing industry, the technological industry.

Businesses function with the nature and the framework of the political party. The components of a political environment consist of the constitution of the country, political stability, political ideology, political outlook on business sectors, the extent of government intervention and degree of politicisation of business and economic issues.

Solved Question for You

Q: Which of these is a factor of economic environment?

Mobile Apps

Rate of Interest

Consumer Protection Act

Social Justice

Innovation

Answer: The correct option is "B" which is Rate of Interest. Changes in the interest rates greatly affect the demand for goods and services. For example, low long-term rates on home loans are beneficial for banks and consumers both.

Industrial Policy

Industrial policy is a document that sets the tone in implementing, promoting the regulatory roles of the government. It was an effort to expand the industrialization and uplift the economy to its deserved heights. It signified the involvement of Indian government in the development of industrial sector.

With the introduction of new economic policies, the main aim of the government was to free the Indian industry from the chains of licensing. The regulatory roles of the Indian government refer to the policies towards industries, their establishments, their functioning, their expansion, their growth as well as their management.

Industrial growth of a country is guided and regulated through its industrial policies. Let's understand the journey of various industrial policies

I. Industrial Policy of 1948

The first industrial policy after independence was announced on 6th April 1948. It was presented by Dr Shyama Prasad Mukherjee then Industry Minister. The main goal of this policy was to accelerate the industrial development by introducing a mixed economy where the private and public sector was accepted as important in the development of the economy. It saw Indian economy in socialistic patterns. The large industries were classified into four categories:

Industries with exclusive State Monopoly/Strategic industries: It included industries engaged in the activity of atomic energy, railways and arms and ammunition.

Industries with Government control: This category included industries of national importance. 18 such categories were mentioned in this category such as fertilizers, heavy machinery, defence equipment, heavy chemicals, etc.

Industries with Mixed sector: This category included industries that were allowed to operate independently in private or public sector. The government was allowed to review the situation to acquire any existing private undertaking.

Industry in the Private sector: Industries which were not mentioned in the above categories fall into this category. High importance was granted to small businesses and small industries, leading to the utilization of local resources and creating employment.

II. Industrial Policy Resolution, 1956

This second industrial policy was announced on April 20, 1956, which replaced the policy of 1948. The features of this policy were:

A new classification of Industries.

Non-discriminatory and fair treatment for the private sector.

Promotion of village and small-scale industries.
To achieve development by removing regional disparity.
Labour welfare.

The IRDA divided industries into three categories:

Schedule A industries: The industries that were under the monopoly of the state or government. It included 7 industries. The private sector was also introduced in these industries if national interest required.

Schedule B industries: In this category of industries, the state was allowed to establish new units but the private sector was not denied to set up or expand existing units e.g. chemical industries, fertilizer, synthetic, rubber, aluminium etc.

Schedule C industries: So the industries that were not a part of the above-mentioned industries then they formed a part of Schedule C industries.

To summarize, the policy of 1956 in which the state was given a primary role for industrial development as capital was scarce and business was not strong.

III. Indian Policy Statement, 1973

Indian Policy Statement of 1973 identified high priority industries with investment from large industrial houses and foreign companies were permitted. Large industries were permitted to start operations in rural and backward areas with a view to developing those areas and enabling the growth of small industries around. And so the basic features of Indian Policy Statement were:

The policy was directed towards removing the distortions, it provided for closer interaction between agriculture and industrial sector.

Priority was given towards generation and transmission of power.

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The list of industries reserved for the small-scale sector was expanded.

Special legislation was made to protect cottage and household industries were introduced.

III. Indian Policy Statement 1977

Indian Policy Statement was announced by George Fernandes then union industry minister of the parliament. The highlights of this policy are:

A] Target on the development of small-scale and cottage industries.

Household and cottage industries for self-employment.

Tiny sector investment up to 1 lakhs.

Smallscale industries for investment up to 1-15 lakhs.

B] Large-scale sector

Basic industries: infrastructure and development of small-scale and village industries.

Capital goods industries: meeting the requirement of cottage industries.

High technological industries: development of agriculture and smallscale industries such as petrochemicals, fertilizers and pesticides.

C] Restrict the control of big business houses.

D] Role of the public sector:

Development of ancillary industries.

To make available expertise in technology and management in small and cottage industries.

E] Revival and rehabilitation of sick units.

V. Industrial Policy, 1980

The Congress government announced this policy on July 23rd, 1980. The features of this policy are:

Promotion of balanced growth.

Extension and simplification of automatic expansion.

Taking over industrial sick units.

Regulation and control of unauthorized excess production capabilities installed for industrial houses.

Redefining the role of small-scale units.

Improving the performance of the public sector.

VI. New Industrial Policy, 1991

The features of NIP, 1991 are as follows:

Public sector de-reservation and privatization of public sector through disinvestment.

Industrial licensing.

Amendments to Monopolies and Restrictive Trade Practices (MRTP) Act, 1969.

Liberalised Foreign Investment Policy.

Foreign Technology Agreements (FTA).

Dilution of protection to SSI and emphasis on competitiveness enhancement.

The all-around changes introduced in the industrial policy framework have given a new direction to the future industrialization of the country. There are encouraging trends on diverse fronts.

Industrial growth was 1.7 percent in 1991-92 that has increased to 9.2 percent in 2007-08. The industrial structure is much more balanced. The impact of industrial reforms is reflected in multiple increases in investment envisaged, both domestic and foreign.

Solved Question

Question: Which industries were included in Schedule B of Industrial Policy Resolution, 1956?

Answer: Chemical industries, fertilizer, synthetic, rubber, aluminium, etc

The combination of internal and external factors that influence a company's operating situation. The business environment can include factors such as: clients and suppliers; its competition and owners; improvements in technology; laws and government activities; and market, social and economic trends.