

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 affect its performance.

Since **environment factors influence business enterprise** so it becomes **essential** for businessmen to do **environment scanning**.

Environment scanning refers to **complete awareness and understanding of business environment**. With environment scanning business enterprises can anticipate the effect of environment forces and factors on their enterprise.

Features/Characteristics of Business Environment

1. Totality of external forces: Business environment includes **all the forces, institutions and factors which are external** to business organisations and as such is **aggregative in nature**.

2. Specific and general forces: Business environment includes both specific and general forces. Specific forces affect **business enterprises directly and immediately** in their day to day working. These include supplier, investors, customers. General forces are economic social, political, legal, technological conditions that have **impact on all the enterprises and affect individual firms only indirectly**

3. Inter-relation: All the forces and factors of Business environment are inter-related to each other.

4. Uncertainty: It is very **difficult to predict the changes** of Business environment, as **environment is changing very fast**. For example in IT, fashion industry frequent and fast changes are taking place.

5. Dynamic: Business environment is **highly flexible and keep on changing**. Whether in terms of technology improvements, shift in consumer preference, etc., that is why it is **essential to monitor and scan the business environment continuously**.

6. Complex: It is very **difficult to understand the impact of business environment on the companies**. Although it is **easy to scan the environment but it is very difficult to know how these changes will influence business decisions**. Since business environment **consist of many**

inter-related and dynamic conditions or forces which arise from different sources. It become difficult to understand what exactly constitute a given environment.

7. Relativity: Business environment differs from country to country, region to region as political conditions, cultures are different in different countries. For example, there may be more demand for sarees in India as compared to USA or UK.

Importance of Business Environment

1. It Enables the Firm to Identify Opportunities and Getting First Mover Advantage: The businessmen who are able to understand and scan the opportunities of business environment at early stage get maximum benefit or they can capture a big share in the market. They can go much ahead of their competitors.

2. It Helps the Firm to Identify the Threats and Early Warning Signal: The businessmen who are able to scan and understand the business environment on time get a warning signal to deal with the constraints or the negative policies of business environment. Timely scanning of business environment and the qualitative information which businessmen get is taken as warning signal and changes in the companies are made.

3. It helps in Tapping Useful Resources: Environment is a source of various resources for running a business. To engage in any type of activity, business assembles various resources called inputs like finance machines, raw materials, etc. from its environment. By using these resources the business enterprises supplies the environment with its output such as goods and services for customers, payment of taxes to government, return on investment to financiers.

4. It Helps in Coping with the Rapid Changes: Today changes are taking place very fast and these changes have great impact on Business. So, it is essential to understand these changes as early as possible. Business environment scanning helps the companies to scan and understand these changes with environment scanning. Businessmen make changes in their internal environment also to match the external environment. So, environment scanning helps in coping with the rapid changes.

5. It helps in Assisting in Planning and Policy Making: The major strategies or plans and policies in the organisation are formed keeping in mind business environment because the policies and strategies have to be implemented in the presence of environmental factors. Scanning environmental of factors helps in finding out the opportunities of business and

strategies can be made to grab these opportunities. At the same time, companies can make plans and policies for meeting the threats and challenges.

6. It helps in Improving the Performance: Many studies reveal that the **future of the enterprises are closely bound up with, what is happening in the environment** and the **enterprises that continuously monitor their environment** and adapt suitable business plans are the one which not only **improve their present performance** but also continues to succeed in market for a long period.

Dimensions of Business Environment

Dimensions of business environment mean all the **factors, forces and institutions which have direct or indirect influence** over the business transactions.

Major Components of General Environment are:

1. Economic Environment
2. Social Environment
3. Political Environment
4. Legal Environment
5. Technological Environment

1. Economic Environment

Economic factors that can effect management practices in a business enterprise are:

1. Interest rate
2. Inflation rate
3. Changes in disposable income of people
4. Stock market Indices
5. Value of Rupee

Components of Economic Environment

- Role of Private Sector and Public Sector.
- Growth of GDP, GNP and per capita income.
- Rate of Saving and Investment.
- Volume of Import and Export of different items.
- Balance of payment and changes in foreign exchange reserves.

- Agricultural or Industrial products trends.
- Expansion of transportation and communication facilities.
- Money supply in Economy.
- Public debt.
- Planned outlay in private and public outlay.

2. Social Environment

Social environment of business includes social factors like:

1. Customs and traditions: Customs and traditions define **social practice** that have been lasted for decades or even centuries.

Example: Diwali, Holi, Eid etc.

2. Values: Values refers to concepts that a **society holds on high esteem**. In India, individual freedom, social justice, equality of opportunities and national integration are examples of values. In business terms, these values translate into freedoms of choice in the market, business responsibilities towards the society and non discriminatory employment practices, etc.

3. Social trends and society's expectation from business: Social trends present various opportunities and threats to business enterprise.

Example: Nowadays people are becoming health conscious. Hence, demand for organic products is rising.

Components of Social Environment

- Demand for reservation in jobs for minority and women.
- Demand for equal status of women by paying equal wages for male and female workers.
- Demand for automatic machines and luxury items in middle class families.
- The social movements to improve the education level of girl child.
- Change in quality of life.
- Importance or place of women in workforce.
- Birth and death rates and population.
- Attitude of customers towards innovation, life style, etc.
- Education and literacy rates.
- Tradition, custom and habits of people.

3. Political Environment

Political Environment includes:

1. Political conditions such as [general stability and peace](#) in the country.
2. [Specific attitude of government](#) representatives holds towards business.

Components of Political Environment

- Swachh Bharat Abhiyan started by BJP government.
- Skill India Movement started by BJP government.
- Political stability encourages business enterprises to invest in long-term projects.
- Present political system and profile of political leaders.
- Constitution of the country.
- Government intervention in business.
- Foreign policy of government.
- Values and ideology of political parties.
- Our country's relation with foreign countries.

4. Legal Environment

The management of every business enterprise has to [obey the law of land](#). Therefore, it is essential for every business enterprise to have [adequate knowledge of rules and regulations](#) framed by government.

Legal environment includes:

1. Various laws and legislative act.
2. Administrative order issued by government authorities.
3. Court judgements
4. The decisions rendered by various commissions and agencies at every level of the government-Centre, State or Locals.

5. Technological Environment

Technological environment includes:

1. forces related to [scientific improvements and innovations](#) which provide new ways of producing goods and services.
2. [Services and new ways](#) of operating business.

Demonetisation

November 8, 2016 was the day when '500' and '1000' denomination notes were withdrawn from circulation. It resulted in withdrawal of 86% currency in circulation. People were advised to go to the bank to replace old notes with new currency in a limit.

There was a restriction on cash withdrawal.

The [main aim of demonetisation was to curb corruption, counterfeiting the use of high denomination notes for illegal activities and specially the accumulation of black money generated by not declaring in income to income tax authorities.](#)

Features of Demonetisation

1. Demonetisation as a tax administration measures: Due to demonetisation, [people had to declare their cash holding](#) to get it exchanged from bank. So, [those having black money had to declare their unaccounted wealth](#) and pay taxes with penalty.

2. Non-tolerance of tax evasion: Demonetisation also [indicated that government will no longer accept tax evasion.](#)

3. Tax administrating and channelising saving into formal financial system:

Demonetisation led to tax administration, [channelising savings into the formal financial system.](#) As much of the [cash deposited by people for exchange will be offered to people for loan under new schemes.](#)

4. Creating cash-less/digital/cash lite economy: Another feature of demonetisation is to [create a cash-less or cash-lite economy](#) i.e. channelising more saving through the formal financial system and improving tax compliance. Due to non-availability of cash at the time of demonetisation, people started shifting to digital cases. UPI payment system picked up great pace since then.

