BUSINESS ENVIRONMENT

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BUSINESS ENVIRONMENT : MEANING

- “Business Environment encompasses the -climate’ or set of conditions, economic, social, political or institutional in which business operations are Conducted.”—Arthur M. Weimer
- “Environment contains the external factors that create opportunities and threats to the business. This includes socio-economic conditions, technology and political conditions.” – **William Gluck and Jauch**
- “Business environment is the aggregate of all conditions, events and influences that surround and affect it.”—**Keith Davis**
- “The environment of business consists of all those external things to which it is exposed and by which it may be influenced directly or indirectly”. —**Reinecke and Schoell**.
- “The total of all things external to firms and industries that affect the function of the organization is called business environment.”—**Wheeler**
- “Civilizations require challenges to survive. Thus environment also contains hostilities and dangers that may be overcome by individuals and organizations.”—**Arnold J. Toynbee**

On the basis of the above definitions, it is very clear that the business environment is a mixture of complex, dynamic and uncontrollable external factors within which a business is to be operated.

BUSINESS ENVIRONMENT : CHARACTERISTICS

- The nature of Business Environment is simply and better explained by the following approaches:
- **(i) System Approach**

In original, business is a system by which it produces goods and services for the satisfaction of wants, by using several inputs, such as, raw material, capital, labour etc. from the environment.

- **(ii) Social Responsibility Approach**

In this approach business should fulfil its responsibility towards several categories of the society such as consumers, stockholders, employees, government etc.

- **(iii) Creative Approach**

As per this approach, business gives shape to the environment by facing the challenges and availing the opportunities in time. The business brings about changes in the society by giving attention to the needs of the people.

IMPORTANCE OF BUSINESS ENVIRONMENT

- ✓ Business Environment refers to the "Sum total of conditions which surround man at a given point in space and time. In the past, the environment of man consisted of only the physical aspects of the planet Earth (air, water and land) and the biotic communities. But in due course of time and advancement of society, man extended his environment through his social, economic and political function."
- ✓ In a globalised economy, the business environment plays an important role in almost all business enterprises. The significance of business environment is explained with the help of the following points:
- **(i) Help to understand internal Environment**

It is very much important for business enterprise to understand its internal environment, such as business policy, organization structure etc. In such case an effective management information system will help to predict the business environmental changes.

IMPORTANCE OF BUSINESS ENVIRONMENT (CONTINUED)

- **(ii) Help to Understand Economic System**

The different kinds of economic systems influence the business in different ways. It is essential for a businessman and business firm to know about the role of capitalists, socialist and mixed economy.

- **(iii) Help to Understand Economic Policy**

Economic policy has its own importance in business environment and it has an important place in business. The business environment helps to understand government policies such as, export-import policy, price policy; monetary policy, foreign exchange policy, industrial policy etc. have much effect on business.

- **(iv) Help to Understand Market Conditions**

It is necessary for an enterprise to have the knowledge of market structure and changes taking place in it. The knowledge about increase and decrease in demand, supply, monopolistic practices, government participation in business etc., is necessary for an enterprise.

ENVIRONMENTAL FACTORS

The different environmental factors that affect the business can be broadly categorized as internal ands has its own external factors.

- **INTERNAL FACTORS :** Internal factors are those factors which exist within the premises of an organization and directly affects the different operations carried out in a business. These internal factors are :

- **VALUE SYSTEM :** It implies the culture and norms of the business. In other words, it means the regulatory framework of a business and every member of the organization has to act within the limits of this framework.
- **MISSIONS AND OBJECTIVES** : Different priorities, policies and philosophies of a business is guided by the mission and objectives of a business.
- **FINANCIAL FACTORS** : Financial factors like financial policies, financial position and capital structure also affects a business performance and its strategies.
- **INTERNAL RELATIONSHIP :** Factors like the amount of support the top management enjoys from its shareholders, employees and the board of directors also affects the smooth functioning of a business.

ENVIRONMENTAL FACTORS (CONTINUED)

The **EXTERNAL FACTORS** include all those factors which exists outside the firm and are often regarded as uncontrollable.. These external forces can further be categorized as **MICRO ENVIRONMENT** and **MACRO ENVIRONMENT.**

MICRO ENVIRONMENT includes the following factors.

- **SUPPLIERS :** Suppliers are those people who are responsible for supplying necessary inputs to the organization and ensure the smooth flow of production.
- **COMPETITORS** : Competitors can be called the close rivals and in order to survive the competition one has to keep a close look in the market and formulate its policies and strategies as such to face the competition.
- **MARKETING INTERMEDIARIES** : Marketing intermediaries aid the company in promoting, selling and distribution of the goods and services to its final users. Therefore, marketing intermediaries are vital link between the business and the consumers.

ENVIRONMENTAL FACTORS (CONTINUED)

MACRO ENVIRONMENT **includes the following factors.**

- **ECONOMIC FACTORS :** Economic factors includes economic conditions and economic policies that together constitutes the economic environment. These includes growth rate, inflation, restrictive trade practices etc. Which have a considerable impact on the business.
- **SOCIAL FACTORS :** Social factors includes the society as a whole alongside its preferences and priorities like the buying and consumption pattern, beliefs of people their purchasing power, educational background etc.
- **POLITICAL FACTORS :** The political factors are related to the management of public affairs and their impact on the business. It is important to have a political stability to maintain stability in the trade.
- **TECHNOLOGICAL FACTORS :** Latest technologies helps in improving the marketability of the product plus makes it more consumer friendly. Therefore, it is important for a business to keep a pace with the changing technologies in order to survive in the long run.

CURRENT INDIAN BUSINESS ENVIRONMENT

The present Modi government have made a lot of changes, some of the major ones are described below:

- **Financial Inclusion** – The Prime Minister "Jan Dhan Yojana" launched on 15th August 2014 has received huge response. Run by Department of Financial Services, Ministry of Finance, on the inauguration day, 1.5 Crore (15 million) bank accounts were opened under this scheme. By 10 January 2015, 11.5 crore accounts were opened, with around INR8698 crore (US$1.4 billion) were deposited under the scheme, which also has an option for opening new bank accounts with zero balance. Under the scheme:
- Account holders will be provided zero-balance bank account with RuPay debit card, in addition to accidental insurance cover of Rs 1 lakh (to be given by 'HDFC Ergo').
- Those who open accounts by January 26, 2015 over and above the 1 lakh ₹ accident, they will be given life insurance cover of Rs 30,000(to be given by LIC).
- After Six months of opening of the bank account, holders can avail 5,000 ₹ overdraft from the bank.
- With the introduction of new technology introduced by National Payments Corporation of India (NPCI), a person can transfer funds, check balance through a normal phone which was earlier limited only to smart phones so far.
- Mobile banking for the poor would be available through National Unified USSD Platform (NUUP) for which all banks and mobile companies have come together.
- The scheme thus has introduced many individuals in the field of organized money market thus opening up opportunities for the commerce and management sector, especially banking and insurance. It also poses a challenge for the banking industry.

CURRENT INDIAN BUSINESS ENVIRONMENT

- **Establishment of the NITI Aayog** – In the attempt to reform the fiscal scenario of the Indian economy, the Planning commission has been replaced by NITI Aayog (National Institution for Transforming India). It is a policy think-tank of Union Government of India that replaces Planning Commission of India and aims to involve the states in economic policy-making in India. It will be providing strategic and technical advice to the central and the state governments. It is a commission to help government in social and economic issues. India's Finance Minister Arun Jaitley made the following observation on the necessity of creating NITI Ayog: "The 65-year-old Planning Commission had become a redundant organisation. It was relevant in a command economy structure, but not any longer. India is a diversified country and its states are in various phases of economic development along with their own strengths and weaknesses. In this context, a 'one size fits all' approach to economic planning is obsolete. It cannot make India competitive in today's global economy".
- The establishment of NITI Aayog thus increases the participation of the State governments. This is a distinct move away from the Planning commission wherein the role of the State Governments was only to report to NDC (National Development council) and interaction during the annual meetings. With NITI Aayog, the responsibility of the state government has increased. The business houses need to take into consideration the changing fiscal scenario and adapt to the dynamic changes being introduced by the new government.
- **"Make in India" campaign** – In order to promote the manufacturing sector in India, the government recently announced new norms in FDI and supported the same with the "Make in India" campaign. This will encourage MNCs to invest in India and set up their production plants in India. Setting up of MNC production unit will have a multiplier effect on the economy and will lead to direct and indirect job creation. This will not only boost employment, but also will lead to an increase in National Income.

CURRENT INDIAN BUSINESS ENVIRONMENT

- **Changes at the Global Level** - Business Environment also takes into consideration the dynamic changes on the global level. The Indo-US relations have improved dramatically in the last few months with India changing its policy stance as far as FDI norms are concerned. 100% FDI is now allowed in Railways, increase in FDI in Insurance, Defense sector have opened the doors for foreign players. Indian corporate houses will feel the pressure of competition from foreign players and will have to improve their performance to survive in the competition. The recent Euro crisis poses a challenge for the export houses whose host countries include European nations.
- All of the above are some of the changes in the domestic and global factors observed in the recent times in the Indian economy. These pose both a challenge and an opportunity for the corporate houses. The key is in adapting your strategies to suit the changing business environment.

INDIAN ECONOMY : STRENGTHS AND OPPORTUNITIES

After studying the changing scenario in the Indian economy, we now examine the strengths of certain segments of the Indian economy which create opportunities for Commerce and Management –

- **Construction sector** – The real estate sector in India is booming with demand for housing showing an upward trend specially in Affordable housing sector. In coming years, this trend is expected to grow in an exponential manner and is an opportunity for corporate houses.

- **Food industry** – Another sector which is on the rise is the food segment, especially the restaurant industry. Indians are now open to experimenting with food and are willing to spend the extra rupee for a new experience. This segment thus opens up doors for many corporate houses that can diversify in the food industry. Also, with increase in purchasing power and demographic dividend indicating an increasing youth population, this segment is expected to grow leaps and bounds in the coming future.

INDIAN ECONOMY : STRENGTHS AND OPPORTUNITIES

- **Apparels- Readymade clothing-** another sector which is showing a positive demand forecast is the clothing sector. Many Indians prefer to buy branded apparel and are open to global brands. Also, the young population of today is tilting in favor of readymade clothing, thus increasing the scope of this sector. With FDI in single brand retail being 100% this segment has shown an increase and is expected to do well in future as well.
- **Infrastructure** – The recently elected Modi government is giving a lot of emphasis on development of infrastructure. The Indian economy has a vast coastline and has ample scope for development of new ports. The Public- private partnership is needed in developing infrastructural facilities such as ports, airports, railways, etc. With 100% FDI in railways being announced recently, this sector is showing tremendous potential for development. Also, private ports such as the one near Mundra open up new avenues of investment.
- **Telecom** – With the increase in purchasing power, the spread of telecom network in rural areas and the increase in the mobile density, telecom sector holds tremendous potential for growth and development.

INDIAN ECONOMY : STRENGTHS AND OPPORTUNITIES

- **Unconventional sources of energy -** Government is also giving boost to renewable sources of energy and towards this, more emphasis is being given to promotion of renewable energy such as bio fuel. The recently concluded visit by US President Barack Obama has also emphasized the support of USA to India for this.
- **Education –** Another sector where opening up is visualized and business houses can play an active role is education. Discussion about Higher education in India being opened up for foreign investment has already begun with the Higher Education Bill pending in Parliament. Indian B- schools can expect competition from foreign players. This is one sector where more investment is needed to make our educational institutes at par with international institutes.
- **Aviation industry –** With the opening up or Indian airspace, domestic as well as foreign players have an opportunity to expand into aviation sector as well. Competition being intense in this segment, corporate houses has to make their presence felt with better service and keeping customers satisfied.

Other sectors where business houses have scope to grow and have already seen growth in the past ten years include IT and ITeS, Media and Entertainment.

PLANNING COMMISSION

What was the need to have a Planning Commission?

- The early days of Independence were chaotic in terms of economic planning. The geographical and economic statistics of the country required drastic revision. India was formed after the integration of many former Indian states that were earlier being governed in different ways.
- The influx of several million people after partition had aggravated the country's food supply problems. The economy had also inherited the inflationary pressure caused by World War II and the private sector was not strong and confident enough to step forth.
- A fresh assessment of the financial and other resources was required and in 1949 the Advisory Planning Board appointed by the interim government recommended the appointment of a Planning Commission.

PLANNING COMMISSION

When was the Planning Commission formed?

- The Planning Commission was set up in March 1950 as an executive arm of the Union government and was chaired by Mr. Jawaharlal Nehru, the PM at that time. It was responsible for making an assessment of all the country's resources and planning how they could be used most efficiently.
- Also, it was supposed to identify the most important priorities of the government. In 1953, scientist and statistician PC Mahalanobis joined the commission.
- The five-year plans (FYPs) are not unique to India and were first implemented by Joseph Stalin in Soviet Union in the late 1920s.
- This method was adopted by many other countries. Among the bigger economies, China and India both have continued to use FYPs.

PLANNING COMMISSION

What were the focuses of different five-year plans?

- The first FYP was focused on agriculture, price stability, power and transport. The second focused on rapid industrialization and was moderately successful at a time when the country faced an acute short age of foreign exchange.
- The third gave top priority to agriculture to support industries and export, but was a complete failure because of the Indo-China war (1962), Indo-Pak war (1965) and severe drought 1965-66. Defence became an important priority.
- Thus, the first three FYPs saw resources being spent on creating the massive public sector (steel, rail, power) and building of key infrastructure (hydel projects).
- Subsequent plans encouraged the Green Revolution, making India self-reliant in food and so on. Since the eighth Plan (1992-97), focus shifted to liberalization and, with that, the decline of the planning process itself.

PLANNING COMMISSION

What are plan holidays?

- Plan holidays are declared for years when government is not in the position to make a five-year plan. The Indo-Pak conflict of 1965 caused the first break. Between 1966 and 1969, the government operated through three annual plans. Similarly in 1990, the eighth FYP could not take off because of an unstable political situation.

LIBERALISATION, PRIVATISATION & GLOBALIZATION

Liberalisation means

✓ **Removal of Industrial Licensing and Registration:**

- Previously private sector had to obtain license from Govt. for starting a new venture. In this policy private sector has been freed from licensing and other restrictions.

✓ **Industries licensing is necessary for following industries:**

- **(i)** Liquor
- **(ii)** Cigarette
- **(iii)** Defence equipment
- **(iv)** Industrial explosives
- **(v)** Drugs
- **(vi)** Hazardous chemicals

LIBERALISATION, PRIVATISATION & GLOBALIZATION

Privatisation means

- ✓ Simply speaking, privatisation means permitting the private sector to set up industries which were previously reserved for the public sector. Under this policy many PSU's were sold to private sector. Literally speaking, privatisation is the process of involving the private sector-in the ownership of Public Sector Units (PSU's).

- ✓ The main reason for privatisation was in currency of PSU's are running in losses due to political interference. The managers cannot work independently. Production capacity remained under-utilized. To increase competition and efficiency privatisation of PSUs was inevitable.

LIBERALISATION, PRIVATISATION & GLOBALIZATION

The following steps are taken for privatisation:

✓ **Sale of shares of PSUs:**

- Indian Govt. started selling shares of PSU's to public and financial institution e.g. Govt. sold shares of Maruti Udyog Ltd. Now the private sector will acquire ownership of these PSU's. The share of private sector has increased from 45% to 55%.

✓ **Disinvestment in PSU's:**

- The Govt. has started the process of disinvestment in those PSU's which had been running into loss. It means that Govt. has been selling out these industries to private sector. Govt. has sold enterprises worth Rs. 30,000 crores to the private sector.

✓ **Minimisation of Public Sector:**

- Previously Public sector was given the importance with a view to help in industrialisation and removal of poverty. But these PSU's could not able to achieve this objective and policy of contraction of PSU's was followed under new economic reforms. **Number of industries reserved for public sector was reduces from 17 to 2.**
- **(a)** Railway operations
- **(b)** Atomic energy

LIBERALISATION, PRIVATISATION & GLOBALIZATION

Following steps are taken for Globalisation:

✓ **Reduction in tariffs:**

- Custom duties and tariffs imposed on imports and exports are reduced gradually just to make India economy attractive to the global investors.

✓ **Long term Trade Policy:**

- Forcing trade policy was enforced for longer duration.

Main features of the policy are:

- **(a)** Liberal policy
- **(b)** All controls on foreign trade have been removed
- **(c)** Open competition has been encouraged.

LIBERALISATION, PRIVATISATION & GLOBALIZATION

✓ **Partial Convertibility of Indian currency:**

- Partial convertibility can be defined as to convert Indian currency (up to specific extent) in the currency of other countries. So that the flow of foreign investment in terms of Foreign Institutional Investment (FII) and foreign Direct Investment (FDI).
- **This convertibility stood valid for following transaction:**

(a) Remittances to meet family expenses

(b) Payment of interest

(c) Import and export of goods and services.

✓ **Increase in Equity Limit of Foreign Investment:**

- Equity limit of foreign capital investment has been raised from 40% to 100% percent. In 47 high priority industries foreign direct investment (FDI) to the extent of 100% will be allowed without any restriction. In this regard **Foreign Exchange Management Act (FEMA)** will be enforced.
- If the Indian economy is shining at the world map currently, its sole attribution goes to the implementation of the New Economic Policy in 1991.

INDUSTRIAL POLICY: NEW TRADE POLICY-1991 ONWARDS

- New Economic Policy of India was launched in the year 1991. This policy opened the door of the India Economy for the global exposure for the first time. In this New Economic Policy the government reduced the import duties, opened reserved sector for the private players, devalued the Indian currency to increase the export. This is also known as the LPG Model of growth.
- New Economic Policy refers to economic liberalisation or relaxation in the import tariffs, deregulation of markets or opening the markets for private and foreign players, and reduction of taxes to expand the economic wings of the country.
- **The New Economic Policy was introduced on July 24,1991.**

INDUSTRIAL POLICY: NEW TRADE POLICY-1991 ONWARDS

The main objectives behind the launching of the New Economic policy (NEP) in 1991 are stated as follows:

- The main objective was to plunge **Indian Economy** in to the arena of 'Globalization and to give it a new thrust on market orientation.
- The NEP intended to bring down the rate of inflation
- It intended to move towards higher economic growth rate and to build sufficient foreign exchange reserves.
- It wanted to achieve economic stabilization and to convert the economy into a market economy by removing all kinds of un-necessary restrictions.
- It wanted to permit the international flow of goods, services, capital, human resources and technology, without many restrictions.
- It wanted to increase the participation of private players in the all sectors of the economy. That is why the reserved numbers of sectors for government were reduced. As of now this number is just 2.

INDUSTRIAL POLICY: NEW TRADE POLICY-1991 ONWARDS

- Beginning with mid-1991, the govt. has made some radical changes in its policies related to foreign trade, Foreign Direct Investment, exchange rate, industry, fiscal discipline etc. The various elements, when put together, constitute an economic policy which marks a big departure from what has gone before.

- The thrust of the **New Economic Policy** has been towards creating a **more competitive environment** in the economy as a means to **improving the productivity and efficiency** of the system. This was to be achieved by removing the barriers to entry and the restrictions on the growth of firms.

INDUSTRIAL LICENSING IN INDIA

- Since the liberalization and deregulation of the Indian economy in 1991, most industries have been exempt from obtaining an industrial license to start manufacturing in India. Government attention is reserved only for those industries that may impact public health, safety, and national security.
- In India, industrial licenses are regulated by the IDRA, 1951 Act, and are approved by the Secretarial of Industrial Assistance (SIA) on the recommendation of the licensing committee.
- The provisions of the Act restrict a licensed industrial undertaking from manufacturing a new article unless the license has been renewed or a new license has been obtained to include the new article.
- Industries that require industrial licensing for manufacturing in India include:

a. Industries under compulsory licensing; and,

b. Industrial undertakings attracting locational restrictions. The licensing provision also applies to the expansion of the existing industrial units.

INDUSTRIAL LICENSING IN INDIA

Recent amendment to industrial licensing rule

- Earlier, large industries that manufactured items that were exclusively reserved for Micro, Small, and Medium Enterprises (MSME) also needed to obtain an industrial license. MSMEs were previously known as Small Scale Industry (SSI). The provision was aimed at protecting indigenous manufacturers from unequal competition with large scale industries.
- However, in April 2015, the government de-reserved these items to encourage greater investment, incorporate better technologies, and enhance competition in the Indian and global market for the products.
- Large industries are now permitted to manufacture items such as – bread, wood, firework, pickles and chutneys, mustard oil, groundnut oil, steel chairs and tables, padlocks, stainless steel and aluminum utensils, without obtaining an industrial license.

INDUSTRIAL LICENSING IN INDIA

Industries subject to compulsory licensing in India

Businesses planning to establish industries to produce any of the following items in India must obtain a compulsory license:

- Distillation and brewing of alcoholic drinks;
- Cigars and cigarettes of tobacco and manufactured tobacco substitutes;
- Electronics and aerospace and defence equipment;
- Industrial explosives including detonating fuses, safety fuses, gun powder, nitrocellulose and matches; and
- Hazardous chemicals including items hazardous to human safety and health and thus fall for mandatory licensing.

These industries are under compulsory licensing mainly because of environmental, safety and strategic considerations. Compulsory licensing is regulated by the Ministry of Industrial Development.

INDUSTRIAL LICENSING IN INDIA

Locational restrictions for industries in India

Under this provision, industries located within 25 kilometres of the periphery of cities having a population of at least one million, must obtain an industrial license from the federal government.

This locational restriction does not apply in the following cases:

- Industries manufacturing electronics, computer software and printing, or any other industry that may be classified as a 'non-polluting industry'; or
- Industries located in an area designated as an 'industrial area' before July 25, 1991.

The location of industrial units is subject to appropriate local zoning, land use regulations, as well as environmental regulations in order to maintain ecological discipline.

INDUSTRIAL LICENSING IN INDIA

License registration for industries

- The application for registration must be made to the SIA, Department of Industrial Policy & Promotion (DIPP) along with a fee. The government issues the certificate only after due consideration.
- Once the license is obtained, an industrial undertaking is eligible for the allotment of controlled commodities and for the issuance of an import license for goods required for its construction and operation.
- Businesses can opt to register for an industrial license and IEM online at the government's eBiz website. They can also use the single window portal to obtain clearance from various governments and government agencies.

De-licensed industries in India

- There is no exhaustive list of de-licensed industries specified by the DIPP.
- However, industries exempted from the provisions of industrial license must file an Industrial Entrepreneur's Memorandum (IEM) with the SIA, DIPP, and Ministry of Commerce & Industry.