



ST. LAWRENCE HIGH SCHOOL

A JESUIT CHRISTIAN MINORITY INSTITUTION



Study Material No. 3

Sub: Business Studies
Topic: Business Environment

Class XII

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Chapter – 3

DIMENSIONS/COMPONENTS OF BUSINESS ENVIRONMENT

1. Economic Environment: It has immediate and direct economic impact on a business. Rate of interest, inflation rate, change in the income of people, monetary policy, price level etc. are some economic factors which could affect business firms. Economic environment may offer opportunities to a firm or it may put constraints.

2. Social Environment: It includes various social forces such as customs, beliefs, literacy rate, educational levels, lifestyle, values etc. Changes in social environment affect an organization in the long run. Example: Now a day's people are paying more attention towards their health, as a result of which demand for mineral water, diet coke etc. has increased while demand of tobacco, fatty food products has decreased.

3. Technological Environment: It provides new and advance ways/techniques of production. 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. For Example, Digital watches in place of traditional watches, artificial fabrics in place of traditional cotton and silk fabrics, booking of railway tickets on internet etc.

4. Political Environment: Changes in political situation also affect business organizations. Political stability builds confidence among business community while political instability and bad law & order situation may bring uncertainty in business activities. Ideology of the political party, attitude of government towards business, type of government-single party or coalition government affects the business. Example: Bangalore and Hyderabad have become the most popular locations for IT due to supportive political climate.

5. Legal Environment: It constitutes the laws and legislations passed by the Government, administrative orders, court judgements, decisions of various commissions and agencies. Businessmen have to act according to various legislations and their knowledge is very necessary. Example: Advertisement of Alcoholic products is prohibited and it is compulsory to give statutory warning on advertisement of cigarettes.

MAJOR STEPS IN ECONOMIC FORMS

1. New Industrial Policy – Under this the industries have been freed to a large extent from licences and other controls. Efforts have been made to encourage foreign investment.

2. New Trade Policy – The Foreign trade has been freed from the unnecessary control. The age old restrictions have been eliminated.

3. Fiscal Reforms. The greatest problem confronting the Indian Govt. is excessive fiscal deficit.

(a) Fiscal Deficit – It means country is spending more than its income

(b) Gross Domestic Product (GDP) – It is the sum total of the financial value of all goods & services produced in a year in a country.

4. Monetary Reform – It is a sort of control policy through which the central bank controls the supply of money with a view to achieving objectives of general economic policy.

5. Capital Market Reforms- The Govt. has taken the following steps for the development of this market:

(1) SEBI has been established.

(2) The restriction in respect of interest on debentures has been lifted.

(3) Private Sector has been permitted to establish Mutual Fund.

6. Dismantling Price control – The govt. has taken steps to remove price control in many products especially in fertilizers, iron and steel, petro products. Restrictions on the import of these things have also been removed.

IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY

1. Increasing Competition: De-licensing and entry of foreign firms Indian market is increased the level of competition for Indian firms.

2. More Demanding Customers: Now customers are more aware and they keep maximum information of the market as the result of which now market is customer/buyer oriented, now, products are produced keeping in mind the demands of the customers.

3. Rapid Changing Technological Environment: Rapid Technological advancement has changed/improved the production process as a result of which maximum production is possible at minimum cost but it leads to tough challenges in front of small firms.

4. Necessity for Change- After New Industrial. Policy the market forces (demand & supply) are changing at a very fast rate. Change in the various components of business environment has made it necessary for the business firms to modify their policies & operations from time to time.

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 which could increase their effectiveness and efficiency.

6. Market Orientation: Earlier selling concept was famous in the market now its place is taken by the marketing concept. Today firms produce those goods & services which are required by the customers. Marketing research, educational advertising, after sales services have become more significant.

7. Reduction in budgetary Support to Public Sector: The budgetary support given by the government to the public sector is reducing thus the public sector has to survive and grow by utilising their own resources efficiently.

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