



Study of Business Environment Policy and its Components

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Abstract

The context in which a company operates is a significant aspect that determines whether or not that company will be successful. It is necessary for enterprises to have a solid understanding of the components of the business environment policy in order to successfully navigate the complicated and constantly shifting economic landscape. The economic aspect of the business environment policy takes into consideration a variety of aspects, including rates of inflation and interest, as well as the pace of economic expansion. In order for companies to make educated choices on pricing, production, and investment, they need to have a solid understanding of these aspects. In addition, economic policies, such as taxes, trade rules, and monetary policy, may have a considerable influence on firms both locally and globally. This is true for both the United States and other countries. The legal aspect of the business environment policy takes into consideration all applicable rules and regulations, whether they are on the state, national, or international level. Businesses have a variety of obligations that must be met in order to remain compliant with the law. These obligations include employment rules, environmental restrictions, and intellectual property laws. Should these requirements not be followed, the violator may face legal action in addition to having their reputation damaged.

Key word: Business, society, customers, management, environment etc

Introduction

The business environment policy includes a social component that takes into consideration a variety of elements, including demographic changes, cultural values, and consumer behaviour. In order for companies to create goods and services that cater to the requirements and preferences of their target audiences, they need to have an understanding of the elements listed above. Consumers and other stakeholders are placing an increased demand on companies to conduct their operations in an ethical and environmentally responsible way, which has resulted in the rise of the importance of social responsibility.

The technical aspect of the policy governing the corporate environment encompasses recent developments in technology such as automation, artificial intelligence, and digital platforms. The method in which companies are run is being revolutionised as a result of these advancements, which is resulting in the creation of new prospects for growth and innovation. On the other hand, they can bring about complications, such as concerns to data privacy and cybersecurity.

The political aspect of the business environment policy takes into consideration a variety of elements, including the consistency of the government, policy choices, and political dangers. Instability in the political sphere or changes in the composition of the government may have substantial repercussions for companies, especially those that operate in international markets.

Business Environment Definition

“The term Business environment is the sum of all conditions, events, and influences that surround and affect business activities and growth.

Components of Business Environment

Internal - It combines the factors that exist within the company. These are –

- Human resources
- Value system
- Vision and mission
- Labour union
- Corporate culture

External - An external Environment includes those outside factors that exercise an influence on a business's operations. It is further classified into two segments.

Macro - Socio-cultural, political, legal, and global factors fall into this category.

Micro - This environment has a direct and immediate impact on a business. It consists of customers, investors, suppliers, etc.

Features of Business Environment

The word business environment refers to the totality of all aspects of a company's surroundings, both internal and external, that have an impact on the development of the firm.

The environment in which enterprises function consists of both broad and narrowly focused considerations at the same time. A few examples of particular elements are investors, customers, competitors in company, and partners in the supply chain. The day-to-day operations of particular companies are directly and immediately impacted by these factors, making such enterprises susceptible to their influence. The concept of general forces encompasses not only the social and political conditions, but also the legal and technological ones. The general variables have an effect on the particular dynamics of the environment in which businesses operate.

- The atmosphere of commerce is one of constant change.
- The economic climate is fraught with a great deal of unpredictability.
- The economic climate is a relative term since it varies from nation to nation and even area to region. This makes the idea of the business environment a relative one.

Dimensions of Business Environment

The word business environment refers to the collection of all companies, factors, and forces that have an influence, either directly or indirectly, on the actions of businesses. The term dimension is being used to refer to this facet of the corporate environment. Here is a rundown of these five key components:

1. Social Environment

It refers to the history, culture, habits, and principles that are prevalent in the society in which the company operates.

Tradition: In India, holidays such as Diwali, Christmas, and Holi provide a financial opportunity for a variety of market areas, such as sellers of giving items, producers of sweets, and other similar businesses”.

Value: Businesses that uphold time-honored values, such as social justice, freedom, equal opportunities, gender equality, and so on, tend to be the most prosperous in any given society. These values may be found in a wide variety of contexts.

Recurrent Trends: It is a phrase that refers to the expansion or general changes that take place in a society, such as changes in consumer habits, fitness awareness, literacy rate, and other things that have an influence on a firm. This may have a positive or negative impact on a business. For instance, there is a rising demand for organic vegetables and food that does not contain gluten; as a result, firms who create food goods take this need into consideration in order to attract bigger audiences.

2. Legal Environment

It is made up of the laws, rules, and regulations that have been created by the government, as well as the acts that they have taken. When doing business, a company has the responsibility of ensuring that it abides by all of the rules and regulations that have been set by the relevant laws. These laws include, amongst others, the Consumer Protection Act of 1986 and the Companies Act of 1956. If personnel at a firm have a strong understanding of these rules, then the day-to-day operations of the organisation will function more smoothly.

As an example, a business that deals in cigarettes is obligated to print the warning smoking is hazardous to your health on each and every one of the packets that they put on the market.

3. Economic Environment

It involves market conditions, consumer needs, interest rate, inflation rate, economic policies, etc.

Interest Rate - For example, interest rates of fixed-income instruments prevalent in an economic environment impact the interest rate it will offer on its debentures.

Inflation Rate – “A rise in the inflation rate leads to a price hike; hence, it limits businesses.

Customer’s Income - If the income of customers increases, the demand for goods and services will rise too.

Economic Policies - Policies like corporate tax rate, export duty, and import duty influence a business.

4. Political Environment

It is comprised of components such as the manner in which the government deals with businesses, the regulations that are in place to make it simpler for firms to conduct their operations, the stability of the governing body, and the degree of tranquilly that prevails across the country. For the purpose of ensuring the viability of a company as a whole, each of these aspects is of the highest significance. The economy of the country as a whole will improve if the central and local governments enact policies, sanctions, or activities that are favourable to companies. This will lead to an increase in employment, an increase in productivity, and an increase in the import and export of a wide variety of goods.

As an example, a government that is pro-business will make the nation in question a more desirable location for international investments.

5. Technological Environment

It encompasses the knowledge of the most current technological developments and scientific discoveries that may be utilised to increase the quality of goods and services while also enhancing the relevance of those products and services. Specifically, this information can be used to:

Any company that makes it a point to keep abreast of these advancements and makes it a habit to do so has the capacity to modify its business strategy to be more relevant.

For instance, a watch firm that sells both traditional and smartwatches will be successful in the future because of the increasing demand for smartwatches. This is due to the fact that smartwatches are becoming ever more popular.

Impact of Government Policies on Business and Industry

The different policies of the government, including liberalization, privatization, and globalization, immensely impacts the working of enterprises in business and industry in terms of:

- Increasing competition
- More demanding customers
- Rapidly changing technological environment
- Necessity for change
- Need for developing human resource
- Market orientation
- Loss of budgetary support to the public sector.

Importance of Business Environment

• **Image Building:** Business organisations may enhance their image (reputation) by exhibiting their sensitivity to the environment in which they are functioning by demonstrating that they have a thorough understanding of the environment. This demonstrates that they are concerned about the environment in which they do their business. For instance, in order to meet their own need for energy in light of the present power shortage, a number of companies have erected what are known as captive power plants (CPP) in their production facilities. This is done in an effort to make up for the power shortfall. In a manner similar to this, it is said that General Electric is image conscious. Because it was unable to attain either the top or second position in the market, as its plan needed, the corporation made the decision to sell off its computer and air conditioning operations. They are now making jokes about outsourcing in India, which encompasses a variety of sectors such as plastic manufacturing, plastic engineering, and aviation engineering.

• **Meeting Competition:** It is beneficial for the organisations to conduct an analysis of the strategies used by their competitors and to design their own strategies in line with the findings of such studies. The stakes go a lot greater when there is actual rivalry amongst the people taking part in the activity. The ability to acquire qualitative data relating to the environment in which enterprises operate and then put that data to use in the formulation of effective strategies is a skill that is possessed by strategists. ITC Hotels, for example, began the building of hotels in India as well as in other countries because it expected favourable growth in the travel and tourism industry”.

• **Identifying Firm’s Strength and Weakness:** In light of the changes that have occurred in both the technological landscape and the global economy, the nature of the business environment may be able to help determine an individual's strengths and limits. It is essential to determine a company's potential and performance by doing a SWOT analysis, which stands for a company's strengths, weaknesses, opportunities, and threats. Depending on the context in which the businessperson chooses to conduct their organisation, they may confront both restrictions and opportunities in their endeavours. Regulations such as the MRTP Act and wealth limits, for example, are examples of the kinds of constraints that might be put on a person who is engaged in business. On the other hand, the policies of liberalisation and import relaxation give opportunities for the person who operates a business on their own.

Economic Policies

The economic policies that are established by the government at different moments in time have a direct influence on all areas of the activities and operations of enterprises, even those parts that are not directly related to the economy. These are some of the most important economic policies that have been implemented:

(i) Industrial policy (ii) Fiscal policy (iii) Monetary policy (iv) Foreign investment policy (v) Export-Import policy (Exim policy). The government keeps on changing these policies from time to time in view of the developments taking place in the economic scenario, political expediency and the changing requirement. “Every business firm has to function strictly within the policy framework and respond to the changes therein.

(i) Industrial policy: - The Industrial policy of the government covers all those principles, policies, rules, regulations and procedures, which direct and control the industrial enterprises of the country and shape the pattern of industrial development (e.g. SEZ Policy)

(ii) Fiscal policy: - It includes government policy in respect of public expenditure, taxation, public debt, and fiscal management (e.g. deficit financing).

(iii) **Monetary policy:** - It includes all those activities and interventions that aim at smooth supply of credit to the business and a boost to trade and industry (e.g. RBI policy of SLR)

(iv) **Foreign investment policy:** - This policy aims at regulating the inflow of foreign investment in various sectors for speeding up industrial development and take advantage of the modern technology (e.g. FDI policy, FEMA etc.)

(v) **Export–Import policy (EXIM policy):** - Its primary objectives are to broaden international trade and to close the gap between domestic and foreign expertise. The government will announce a variety of charges and taxes via the use of this approach. The reduction of customs taxes and the elimination of unnecessary restrictions and obstacles are now the primary focuses of policymakers.

Conclusion

In conclusion, it is vital for enterprises to have a solid grasp of the components of the business environment policy in order to successfully traverse the dynamic and constantly shifting economic landscape. Businesses may be significantly impacted, either favourably or adversely, by the economic, legal, social, and technical aspects, as well as the political considerations, that are included in the policy that constitutes the business environment. Businesses may position themselves for success in the market by doing analysis and making adjustments in response to the criteria listed above.

There is a wide range of ways in which the economic environment of a nation may be relevant to business, both in a theoretical and practical sense. It discloses to the management of the firm the elements of the situation that are within her area of control as well as those that are beyond it. Moreover, it also reveals the parts of the situation that are beyond it. Within today's businesses, the internal merchandising model is undergoing a paradigm change that is occurring at an increasingly fast rate. Because of this, it is essential for the management of the firm to consistently carry out an assessment of the political and economic climate. Because of the significant costs that must be incurred and the high degree of competition that is now present, it is essential to have knowledge of the economic environment in which the firm operates". It is necessary for a corporation to have an in-depth awareness of all laws and practises that have an influence on business in order to successfully navigate the day-to-day interactions that are needed with society and the decision-makers within it. If this criterion is satisfied, and only if it is satisfied, businesses will be able to make better decisions in time and space, which is necessary for a sustainable organisation.

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