



Introduction

This is a learning as well as an exam preparation video.

At the end of the video are practice assignments for you to attempt.

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Chapter 3: Business Environment

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Meaning

Business environment refers to all the factors that are outside the control of the business enterprise but may equally affect the performance of the business. The social, political, economic, technological factors that operate outside a business forms a part of the business environment.

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Meaning



Chapter 3: Business Environment

Features of Business Environment

- 1. Totality of external forces:** Includes every external or outside force that could impact a business organisation such as government, competitors, etc.
- 2. Specific and general forces:** Specific forces are the forces which directly affect a specific business organisation. General forces are those forces which pose a direct impact on the overall industry, but pose an indirect effect on a business enterprise.

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Features of Business Environment

3. Inter-relatedness: The changes in general forces may result in changes in specific forces.

For example, a change in the government (a political force) may lead to a change in tax rates, import-export rates (an economic force)

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Features of Business Environment

4. Dynamic nature: The external forces keep changing due to constant change in technology, consumer preferences, availability of different types of raw material etc.

5. Uncertainty: Constant changes in environment makes it difficult to predict changes in the external environment.

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Features of Business Environment

6. Complexity: The interrelated and dynamic nature of external forces makes it difficult to prepare one single strategy to handle all the changes.

7. Relativity: The impact of changes depends on business to business country to country region to region etc.

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Importance of Business Environment

- 1. Environment Provides Numerous Opportunities for Business Success** It enables the firm to identify opportunities and getting the first mover advantage.
- 2. Threats and Early Warning Signals** Environmental awareness can help managers to identify various threats on time and serve as an early warning signal.

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Importance of Business Environment

3. It Helps in Tapping Useful Resources Environment is a source of various resources for running a business. Like as finance, machines, raw materials etc.

4. It Helps in Coping with Rapid Changes Knowledge of environmental changes sensitises the management to make new strategy to cope with the emerging problems of changes.

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Importance of Business Environment

5. It Helps in Assisting in Planning and Policy Formulation

Its understanding and analysis can be the basis for deciding the future course of action or training guidelines for decision making.

6. It helps in Improving Performance With continuous scan of business environment, companies can easily improve their performance.

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Dimensions of Business Environment



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Dimensions of Business Environment

1. Economic Environment:

It refers to all those factors and forces that have an economic impact on the business activities. Key economic factors include inflation, money supply, price level, etc. For example, increase in inflation rates result in fall in disposable incomes and as a result the demand for products falls.

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Dimensions of Business Environment

2. Social Environment:

Social environment represents the customs and traditions, values, culture, social trends, beliefs, ethics of society in which business operate.

For example, with greater awareness among consumers about their rights, businesses are more concerned about the quality of goods they sell.

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Dimensions of Business Environment

3. Political Environment:

It includes political stability such as political leadership, political stability, practices of the ruling party, etc. For example, change in government, or unstable government.

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Dimensions of Business Environment

4. Legal Environment:

It includes all the legislations passed, administrative orders issued, court judgements or decisions taken by government or its related offices. For example, all cigarette packets must carry a warning 'smoking is injurious to health'.

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Dimensions of Business Environment

5. Technological Environment:

It consists of forces relating to scientific improvements and innovations, which lead to better production techniques and methods to produce goods.

For example, shift from books to e-books, telephones to touch screen mobile phones.

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Dimensions of Business Environment

6. After demonetisation, cash is deposited into banks for exchanging with new notes which makes the payment of tax compulsory with penalty rate.

7. Government introduced demonetisation to reduce tax evasion.

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Dimensions of Business Environment

8. Demonetisation reduces the cash transactions in the economy which means more savings through the financial system and improving tax payment system.

9. Demonetisation facilitates tax administration, and pave way for a cashless economy

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Economic Environment In India

Since 1991 India has been going on economic reforms. We have now adopted the policy of liberalisation, privatisation and globalisation, We have started modernising the country's industrial system.

Unproductive control are being removed private investment, including foreign investment is being encouraged.

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Economic Environment In India

- 1. Liberalisation:** It means removing unnecessary trade restrictions and making the economy more competitive like as freedom of production, expansion of industries.
- 2. Privatisation:** It means removing strict control over private sector and making them free to take necessary decisions. Like as reduction in the number of reserved public sector industries, increasing the share of private sector investment.

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Economic Environment In India

3. Globalisation: Free interaction among economies of the world in the field of trade, finance, production, technologies and investment is termed as globalisation. Our new economic policy contributed towards globalisation in the following ways.

4. Privatisation: It refers to the shifting of the development responsibility from the public sector towards the private sector. Private sector are those where the share of government in the ownership of the enterprise is less than 51 percent.

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Impact Of Demonetisation

Money/ Interest rates	Decrease in transactions of cash. Increase in bank deposits. Financial savings increased.
Private Wealth	High demonetised notes were not returned and real estate prices also fell which lead to decrease in private wealth.

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Impact Of Demonetisation

Public Sector Wealth	There was no effect.
Digitalisation	Increase in the digital transactions (like Rupay, AEPS) among new users.
Real Estate	Decrease in the prices.
Tax Collection	Due to higher disclosure there was rise in tax collection.

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Impact of Government Policy Changes on Business and Industry

- 1. Increasing Competition:** There is a tough competition between multinationals and there is also competitions between Indian enterprises and foreign enterprises.
- 2. More Demanding Customers:** Customers today become more demanding because they are well-informed.

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Impact of Government Policy Changes on Business and Industry

3. World Class Technology: Changes in government policy regarding business and industry has provided us with world class technology.

4. Necessity for Change: After 1991, the market forces have become turbulent as a result of which the enterprises have to continuously modify their operations.

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Impact of Government Policy Changes on Business and Industry

5. Need for Developing Human Resource: The new market conditions requires people with higher competence and greater commitment.

6. Market Orientation: Today firms are market oriented. They research the market, need and wants of consumers and then they produce good accordingly.

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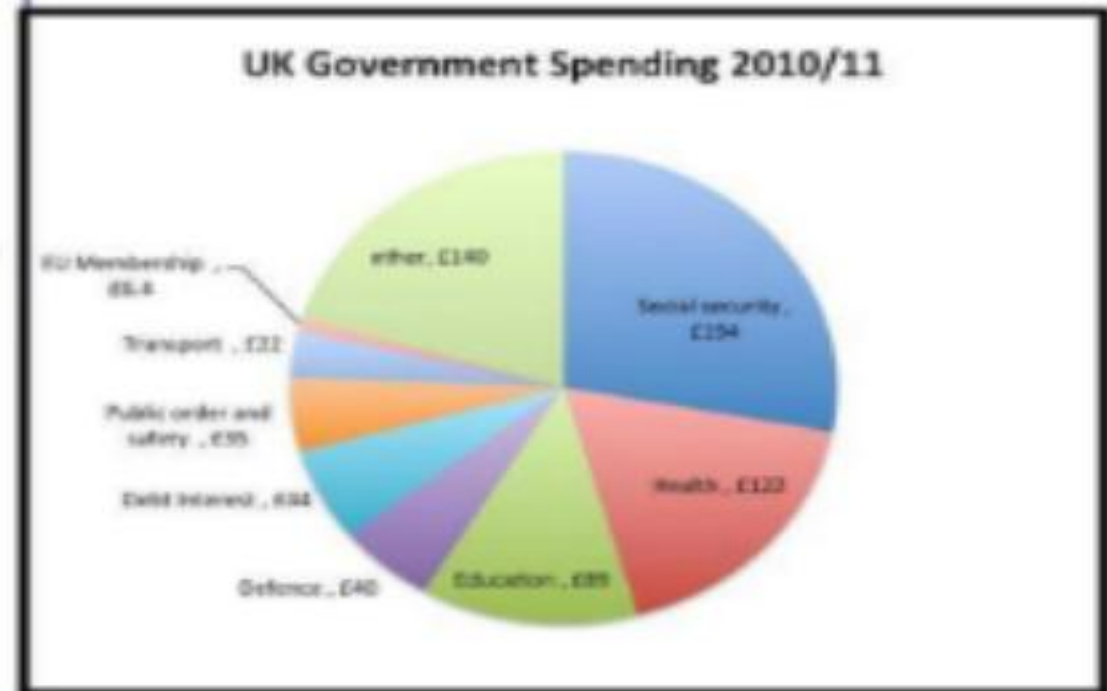
Impact of Government Policy Changes on Business and Industry

7. Loss of Budgetary: Support to Public Sectors The government's budgetary support for financing the public sector has declined over the years.

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Government Spending And Taxation

- The government can change the way businesses work and influence the economy either by passing laws, or by changing its own spending or taxes. For example:
- Extra **government spending** or lower **taxes** can result in more demand in the economy and lead to higher output and employment.
- Governments can pass **legislation** protecting consumers and workers or restricting where businesses can build new premises.



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