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Business Environment

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This book is for students for reading purpose only. Author has no intension to commercialise this book. This book Is based on very easy language of business. This book material has been taken from internet, reference books. Proper references have been given in book. This book is especially designed for Jayoti Vidhyapeeth Women's University.

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Unit 1

An overview of Business Environment

NATURE OF BUSINESS

In culture, it is a significant institution. Be it for the supply of goods and services. Development of employment opportunities. Provision of a better quality of life. Contributing to the country's economic growth. Therefore, it is understood that business's position is crucial. Society can't do without business. It doesn't require any focus on the fact that business requires society as much. BUSINESS TODAY

Modern company is complex. If there is any one word that can better characterise the company of today, it is change. This shift allows businesses invest heavily in research and development (R&D) to thrive in the industry. The norms practised by business companies are industrial production and mass marketing. In 1969-70, the number of companies with an annual turnover of Rs.100 crore each was only 3. These days, the figure has risen by hundreds. The company of today is distinguished by diversification, which may be:

Business

Definition: Enterprise is characterised as an organised commercial operation in which the exchange of goods and services takes place with due regard. It's nothing but a way to make money from company transactions. It encompasses all those operations whose sole purpose is to make the desired goods and services available to society in an efficient way.

It is a systematic effort by entrepreneurs to manufacture products and services and to sell them on the market, by means of profit, to reap the reward.
Benefit plays a vital role, because all business practises are targeted at it, because it acts as an incentive for entrepreneurs, for their efforts, and thus important for everyone.business.

Characteristics of Business

- **Economic Activity**: Business is an economic activity, as it is conducted with the primary objective of earning money, i.e. for an economic motive.
- **Production/purchase of goods and services**: Goods and services are produced or procured by business entities, so as to add value and sell them to the consumer. Goods are either manufactured by the company or procured from the supplier, with the aim of selling it further to the consumer, for profit.

- **Selling of goods and services**: Business must involve the transfer of goods to the customer for value, through selling, meaning that if the goods are acquired for personal consumption, then the transaction will not amount to business activity.

- **Continuity in dealings**: Every business requires regularity in transactions, i.e. an isolated transaction of exchange of goods or services will not be considered as business. So, to constitute business, the dealings must be carried out on a regular basis.

- **Profit earning**: The basic purpose of business is to make the profit from its activities. It is the spine of business, which keeps the business going, in the long term.

- **Element of risk**: Risk is the key element of every business, concerned with exposure to loss. Efforts are made to forecast future events and plan the business strategies accordingly. However, the factors that affect business are uncertain and so does the business opportunities, which can be a shift in demand, floods, fall in prices, strikes, lockout, money market fluctuation, etc.

- **Uncertain return**: In business, the return is never predictable and guaranteed, i.e. the amount of money which the business is going to reap is not certain. It may be possible that the business earns a huge profit or suffer heavy losses.

- **Legal and Lawful**: No matter, in which type of business the company is engaged, it should be legal in the eyes of the law, or else it will not be considered as business.

- **Consumer satisfaction**: The aim of business is to supply goods and services to consumers, so as to satisfy their wants, as when the consumer (final user) is satisfied, he/she will purchase the goods or services. But, if they are not, there are chances that they will look for substitutes.

The consumer is regarded as the king, and so all the activities of the business are aligned towards the satisfaction of consumers. This can be done by making available quality-riched goods easily available to them, at reasonable prices.

Classification of Business Activities

1. **Industry**: Industry implies the economic activities that are associated with the conversion of resources into goods that are ready for use. This involves production, processing, mining of goods. The industry is further divided into three broad categories; primary industry, secondary industry and tertiary industry.

2. **Commerce**: In simple terms, commerce refers to the buying and selling of goods for value, and includes all those activities which facilitate the transaction. Further, commerce encompasses two types of activities, trade and auxiliaries to trade.

From the past few years, the entire concept of business has undergone a drastic change, i.e. it has been turned from producer oriented activity to consumer-oriented activity. Previously, the approach is 'to sell what is produced', but now the approach is 'to produce what is demanded'.

Role of Business Components in the Scope of Business Organization

Industry

The word "Industry" refers to the business activities which are linked with the extraction and production or manufacturing of products. The product formed by an industry is either used by the vital consumers or again by the industry. If the product is used by the consumer it is called consumers' goods such as clothes.

If the product is used again by the industry it is called the producer's goods or capital goods. In a case when a product produced by the industry is further processed into finished products for other purposes they are called intermediate goods. e.g. plastic.

The industry is further divided into types on the basis of business activity:

- ***Extractive Industries***

The industries which extract, raise and manufacture raw materials from above or under the Earth's surface are known as Extractive Industries and they include mining, fisheries, forestry and agriculture, etc.

- ***Genetic Industries***

The industries which are involved in reproducing and multiplying certain species of animals and plants and sell them in the market to earn a profit are named as Genetic Industries. These industries include cattle breeding farms, poultry farms and plant market, etc.

- ***Constructive Industries***

The industries which are involved in the construction of building, canals, bridges, dams and roads, etc. are called Constructive Industries.

- ***Service Industries***

The industries which are involved in manufacturing the intangible goods which cannot be seen but felt such as services of professionals like doctors, lawyers are examples of Service Industries.

Commerce

The second component of the scope of business is Commerce. It involves the buying and selling of goods and all the activities which are associated with the transfer of goods from the production source to the ultimate consumers or destination. The ranges of activities related to Commerce take place through:

- ***Trade***

The process of buying and selling goods is called Trade. It is the process of exchanging goods and services amongst the buyers and sellers and both of them earn profits. Trade can be classified into two types; internal and external.

1. **Internal Trade:** The process of buying and selling goods within a country is called internal trade. The internal trade can be either wholesale trade or retail trade.
2. **Wholesale Trade**: In wholesale trade, the goods are purchased in bulk from the producers and sell them to the retailers. These retailers then sell these goods to the final consumers.
3. **Retail Trade**: In the retail trade, the retailer sells goods and services to the final consumers.
4. **External Trade**: The process of buying and selling goods between the two countries is called external trade. The external trade has two types; import trade and export trade.

The elements which help in the purchasing of goods and services are called aid to trade. There are certain constituents that are essential for the progress of the trade and are as follows:

- ***Transport***

By using different ways of transport, the goods are transported from industry to the consumers. It includes railways, ships, airlines, etc.

- ***Insurance***

Insurance is very important to aid to trade. Insurance reduces the risk of damage to goods due to fire, flood or earthquake, etc. by paying a good amount in this regard.

- ***Warehousing***

Warehouses are used to keep the goods and are released and are delivered to the market when demanded. Thus, warehousing plays an important part to overcome the barrier of time and helps the goods reach the consumers in a short span of time.

- ***Banking***

Commercial banks play an important role in financing trade activities. They provide funds to the traders for stock holding and transporting the goods. They also support the producers in purchasing and receiving at both national and international levels. The banks also offer credit facility in the form of cash credit, overdrafts and loans to the traders.

- **Advertisements**

Advertisements play an important part in selling the good to the consumers. The advertisement is either shown on television or printed in newspaper or magazines etc. and help the consumers to choose their desired product. Thus, advertisements are very important for the seller as well.

BUSINESS ENVIRONMENT

Environment refers to all external forces, which have a bearing on the functioning of business. Environment factors "are largely if not totally, external and beyond the control of individual industrial enterprises and their managements. The business environment poses threats to a firm or offers immense opportunities for potential market exploitation.

TYPES OF ENVIRONMENT

Environment includes such factors as socio-economic, technological, supplier, competitor and the government. There are two more factors, which exercise considerable influence on business. They are physical or natural environment and global environment.

Technological Environment

Technology is understood as the systematic application of scientific or other organized knowledge to practical tasks. Technology changes fast and to keep pace with it, businessmen should be ever alert to adopt changed technology in their businesses.

Economic Environment

There is close relationship between business and its economic environment. Business obtains all its needed inputs from the economic environment and it absorbs the output of business units. Political Environment

It refers to the influence exerted by the three political institutions viz., legislature executive and the judiciary in shaping, directing, developing and controlling business activities. A stable and dynamic political environment is indispensable for business growth. Natural Environment

Business, an economic pursuit of man, continues to be dictated by nature. To what extend business depends on nature and what is the relationship between the two constitutes an interesting study. Global or international Environment Thanks to liberalization, Indian companies are forces to view business issues from a global perspective. Business responses and managerial practices must be fine-tuned to survive in the global environment.

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Micro and Macro Business Environment

The economic system helps in answering questions like:

1. Is it the right time to set up the business?

1. Can new products be added to the product line?

2. Is the market size large enough to provide desired rate of returns?

3. Is the environment conducive in terms of availability of manpower, infrastructure, raw material, finance, building, plant and machinery etc.?

The economic environment, thus, plays vital role in shaping the culture of the economy. Market forces and State planning provide the constraints within which business enterprises carry out their functions. "Progressive management must keep itself continuously informed about the magnitude and direction of changes in national as well as international economic environment."

(b) Non-Economic Environment:

It consists of socio-cultural, demographic, natural, physical, technological, political and legal environment that influence and are influenced by the economic environment. A large number of variables affect the non-economic environment.

Some of the important areas of non-economic environment are discussed below:

(i) Political-legal environment:

It is the legislative, executive and judicial environment of the country that shapes and controls business activities. The legislature describes the laws and courses of action to be followed by firms, the executive implements the decisions taken by the legislature (Parliament) and the judiciary ensures that legislature and executive function in the interest of the society. A stable political environment is conducive to business growth.

A business operates in the environment of Government regulations. Various laws are made to regulate the functions of business enterprises. They relate to standards of product, packaging of products, protection of environmental and ecological balance, ban on advertisement of certain products (liquor), advertisement of certain products with statutory warning (cigarette) etc.

There are laws to prevent restrictive trade practices and concentration of economic power in few hands. Regulations promote entry of firms in backward areas and products are reserved for small-scale sector. Liberalisation policies have allowed the Indian industries to operate in international markets and foreign companies to operate in Indian markets. This allows growth and diversification of markets and access to advanced science and technology for Indian entrepreneurs. At the same time, it threatens the small Indian companies that cannot compete with large foreign companies.

The political-legal environment provides a host of laws and regulations that affect the business affairs. It provides opportunities, threats and challenges for the business enterprises. The Government interacts with business enterprises at the local level, State level and the Central level and regulates their functions through various rulings.

Government interacts with the business in the following ways:

1. As a regulator:

It regulates the affairs of the business by promoting activities in certain areas and restricting in others. These regulations prevent unhealthy competition amongst firms and protect consumers' interests against false advertising and unfair trade practices.

The political and legal environment, thus, performs two important roles:

(a) Promotion role:

It stimulates business enterprises by providing incentives either to small-scale sector in terms of reserving goods for them which cannot be produced by large-scale business houses, big industrial houses to set up in backward areas, providing development facilities to industries (industrial estates, financing facility etc.).

(b) Restraining role:

Business organisations have to work within the legal framework of the country. Laws have to be obeyed and judicial interpretations have to be followed.

2. As a supplier:

It supplies resources to business concerns.

3. As a competitor:

It competes with private entrepreneurs in areas like telecommunication, electricity, construction etc.

4. As a customer:

It supports business houses by buying their products.

Firms should have healthy interaction with the Government. They should indulge in activities that promote economic growth and know the legal system.

Some of the laws that exist in the country for smooth operation of business enterprises are as follows:

Economic Laws [Air (Prevention and Control of Pollution) Act, 1981; Consumer Protection Act, 1986; Essential Commodities Act, 1955; Foreign Exchange Management Act, 1999; Foreign Trade (Development & Regulation) Act, 1992; Industries (Development & Regulation) Act, 1951; Patents Act, 1970; Standards of Weights and Measures Act, 1976; Trade Marks Act, 1999],

The political-legal system helps in answering questions like:

a) Is the political climate stable in the country so that government policies do not change time and again?

b) Do the political organisations promote business activities, that is, processing of paper work is done without much delay because of bureaucracy and red tapism?

c) Is the judiciary effective in decision-making to deal with business conflicts and law suits?

d) Are the government policies conducive to business growth in terms of incentives, markets, taxation etc.

e) Are the licensing procedures for entering into a new business lenient or strict?

f) How conducive are the export and import policies to promote the imports and exports, etc.?

(ii) Socio-cultural environment:

It represents the values, culture, beliefs, norms and ethics of the society in which business enterprises operate. People are important to organisations both as human resource and customers. Their buying habits, buying capacities, tastes, preferences and education affect business enterprises.

Firms change their production and marketing plans according to consumer demand. The social environment consists of the social values; concern for social problems like protection of environment against pollution, providing employment opportunities, health care for the aged and old etc.; consumerism, that is, indulging in fair trade practices to satisfy human wants.

The cultural environment represents values and beliefs of the society. These beliefs mould the attitudes of people and help business enterprises determine their need perception. The socio-cultural environment helps firms support the social and cultural values of society by encouraging fine arts projects, sports, communication media, donations to educational, religious and charitable institutions, counselingcenters, vocational and technical training centres etc.

The socio-cultural environment, thus, affects:

(a) Business objectives:

Social objectives are framed along with economic objectives as the society demands business organisations to look after their interests.

(b) Organisational processes:

Various organisational processes like motivation, leadership, control policies etc. are framed within the constraints of cultural system of the country. Workforce diversity is promoted, participative decision-making is encouraged, democratic leadership style is adopted as the employees demand so to promote their commitment towards the organisation.

(c) Goods and services to be produced:

Though business houses produce goods that earn them profits, it is equally important that these goods are desired by the society. Socially acceptable goods promote both business image and profits.

The socio-cultural system helps in answering questions like:

i. What are the expectations of society from the business?

ii. Can the business meet these expectations?

iii. Are social objectives part of the overall objective framework of the company?

iv. Do the business operations meet the ethical and value system of the society and if not, is the change possible etc.?

(iii) Technical environment:

Technology refers to application of scientific and organised knowledge to organisational tasks. It includes inventions and innovations regarding techniques of production. Technology is changing at a fast pace and technical environment is dramatically affecting the business environment either because of easy import policies or because of technology upgradation as a result of research and development within the country.

The technological advances have introduced products like robots, telecommunication facilities, medicines, equipment's etc. Business firms adapt to the fast changing technical environment. Though technological changes can produce harmful effects also for the enterprises, firms try to reduce these effects and use technological changes in the best interest of firms and society. Not adopting technological changes is not possible; technical threats have to be converted into opportunities and gainfully employed in business operations.

The technical environment helps in answering questions like:

a) What type of technology is available in the environment and what type of technology is needed by the firm?

b) If the technology available is not suitable for the firm's operations, does it need to import the technology or upgrade the indigenous technology?

c) At what rate are changes taking place in technology and how fast are they likely to result in technological obsolescence?

d) What is the firm's financial strength in keeping itself updated regarding technological changes? etc.

(iv) Demographic environment:

It consists of population in its varied forms, such as gender, age, income, growth rate, language, religion, etc. Increasing population increases the demand for business products and also provides labour at low rate. A largely populated country can adopt labour-intensive technology to keep the labour force employed.

The age composition helps to produce goods to meet the needs of that group. Production is also affected by gender composition. More females will promote the enterprises to produce goods used by females. Labour mobility (from rural to urban areas and vice versa), their educational level, nationality, religion, etc. also affect policies of the organisations.

The demographic environment helps in answering questions like:

(a) What is the gender and age composition of the market?

(b) What is the income and education level of the consumers?

(c) How strongly do consumers believe in brand loyalty?

(d) How can the firm create patronage? etc.

(v) Natural environment:

The natural environment consists of the renewable and nonrenewable resources used in the production processes. The renewable resources are air, water and solar energy which can be replenished and non-renewable resources are oil, coal, wood etc. which cannot be replenished.

Though air, water and solar energy can be replenished, firms are harming these resources by dumping industrial wastes in water and polluting the air and affecting the ozone layer. Increasing industrialization is affecting the natural environment by disposing off chemical wastes in land, air and water. It also affects the food supply which can be harmful on consumption. "The environment damage to water, earth and air caused by industrial activity of mankind is harmful for future generations."

Business enterprises should use these resources wisely and adopt methods to restrict environmental pollution. Legislative measures are also enforced by the Government (Pollution Control Board) to protect the natural environment. Even the renewable resources should be used wisely so that rate of consumption does not exceed the rate of replenishment.

Process of Environmental Analysis

Objectives of Business Environmental Analysis

Business Environmental analysis has three basic objectives, which are as follows:

1. Help understanding Existing Environment

It is important that one must be aware of the existing environment. Business Environment analysis should provide an understanding of current and potential changes taking place in the micro environment. Micro environment specifies the type of products to be offered, the technology to be adopted and the productive strategies to be used to face the global competition.

2. Provision of Data for Strategic Decision-making

Business Environment analysis should provide necessary data for strategic decision-making. Mere collection of data is not adequate. The data so collected must be used for strategic decision-making.

3. Facilitating Strategic Linking in Organizations

Business Environment analysis should facilitate and foster strategic linking in organizations.

Process of Business Environment Analysis

The process of Business environment analysis involves many steps, which are as follows:

1. Collection of necessary information.
2. Scanning and searching of information.
3. Getting information by spying.
4. Forecasting the conditions.
5. Observing the environment.
6. Assessing.

We shall now discuss each one of them briefly.

1. Collection of necessary Information

Collection of necessary information is the first stage in the process of business environment analysis. It involves the observation of various factors prevailing in a particular area also. If an environment is to be analyzed, written as well as the verbal information from various sources with regard to the elements of environment for that particular business is to be collected first.

2. Scanning and Searching of Information

Scanning and searching is an important technique of business environment analysis. Once the necessary information has been collected, it should be put to scanning. Besides, the search for other relevant information also continues. This technique gives results as to the hypothesis already established. This helps the analyst to know as to what are the conditions prevailing for a particular business at a time.

3. Getting Information by Spying

Spying is also one of the techniques of business environment analysis. When the activities of a particular business are to be analyzed and such information cannot be collected by traditional methods, the technique of spying is resorted to. This happens especially when business rivalry exists. Mostly, this technique is used to collect competitive information.

4. Forecasting the Conditions

Scanning provides a picture about the past and the present. However, strategic decision-making requires a future orientation. Forecasting is the scientific guesswork based upon some serious study. So it helps to know how a business in particular and conditions in society in general are going to take shape.

5. Observing the Environment

One can analyze a business environment by merely observing it. The observation reveals various conditions prevailing at a particular point of time. This is helpful in understanding the existing environment in its entirety so that suitable decisions can be taken.

6. Assessing

Assessment is made to determine implications for the organization's current and potential strategies. Assessment involves identifying and evaluating how and why current and projected environmental changes affect or will affect strategic management of the organization. It aims at answering questions, like what are the key issues presented by the environment? what are the implications of such issues for the organization?

What is Economic Environment?

The economic environment relates to all the economic determinants that influence commercial and consumer compliance. 'The term economic environment indicates to all the external economic circumstances that affect purchasing practices of customers and markets and hence influence the production of the business.'

As a component of economic reformations, the Government of India declared a new industrial system in July 1991. The extensive characteristics of this system were as follows:

- The Government decreased the number of enterprises below mandatory licensing to six
- Many of the businesses held for the public sector under the initial policy, were justified. The purpose of the public sector was defined only to 4 industries of vital importance
- Disinvestment was conducted in case of many public sector industrial companies
- Policy towards foreign funds was expanded. The percentage of foreign equity partnership was extended and in many ventures, 100 percent Foreign Direct Investment (FDI) was allowed
- Automatic approval was now given for technology transactions with foreign firms
- Foreign Investment Promotion Board (FIPB) was established to support and channelise foreign financing in India

Liberalisation:

The economic reforms that were presented were directed at liberalising the Indian business and trade from all redundant restrictions and limitations. They indicated the end of the licence-permit-quota raj. The liberalisation of the Indian business has taken place with respect to:

- Eliminating licensing terms in most of the industries excluding a shortlist
- Freedom in determining the range of marketing activities i.e., no constraints on development or consolidation of business pursuits
- Dismissal of restraints on the transportation of commodities and services

- Freedom in deciding the cost prices of commodities and services

Privatisation:

The new set of economic changes intended at proffering a prominent position to the private sector in the nation-building rule and a diminished role to the public sector. This was a withdrawal of the growth policy attempted so far by Indian directors. To accomplish this, the administration redefined the role of the public sector in the New Industrial Policy of 1991, approved the policy of proposed disinvestments of the public sector and determined to the loss-making and weak industries to the Board of Industrial and Financial Reconstruction (BIFR).

Globalisation:

Globalisation implies the combination of the different economies of the world heading towards the development of a united (closely-knitted) global marketplace. Till 1991, the Government of India had followed a course of stringently controlling imports in price and quantity terms. These laws were with respect to:

- Licensing of imports
- Tariff limitations
- Quantitative constraints

The new economic reforms directed at business liberalisation were focused towards import liberalisation, export improvement through rationalisation of the tax structure and changes with respect to foreign exchange so that the nation does not remain separate from the rest of the world.

What is Monetary Policy?

Monetary policy is an economic policy that manages the size and growth rate of the money supply in an economy. It is a powerful tool to regulate macroeconomic variables such as inflation and unemployment.

These policies are implemented through different tools, including the adjustment of the interest rates, purchase or sale of government securities, and changing the amount of cash circulating in the economy. The central bank or a similar regulatory organization is responsible for formulating these policies.

Objectives of Monetary Policy

The primary objectives of monetary policies are the management of inflation or unemployment, and maintenance of currency exchange rates.

Inflation

Monetary policies can target inflation levels. A low level of inflation is considered to be healthy for the economy. If inflation is high, a contractionary policy can address this issue.

Unemployment

Monetary policies can influence the level of unemployment in the economy. For example, an expansionary monetary policy generally decreases unemployment because the higher money supply stimulates business activities that lead to the expansion of the job market.

Currency exchange rates

Using its fiscal authority, a central bank can regulate the exchange rates between domestic and foreign currencies. For example, the central bank may increase the money supply by issuing more currency. In such a case, the domestic currency becomes cheaper relative to its foreign counterparts.

Tools of Monetary Policy

Central banks use various tools to implement monetary policies. The widely utilized policy tools include:

Interest rate adjustment

A central bank can influence interest rates by changing the discount rate. The discount rate (base rate) is an interest rate charged by a central bank to banks for short-term loans. For example, if a central bank increases the discount rate, the cost of borrowing for the banks increases. Subsequently, the banks will increase the interest rate they charge their customers. Thus, the cost of borrowing in the economy will increase, and the money supply will decrease.

Change reserve requirements

Central banks usually set up the minimum amount of reserves that must be held by a commercial bank. By changing the required amount, the central bank can influence the money supply in the economy. If monetary authorities increase the required reserve amount, commercial banks find less money available to lend to their clients and thus, money supply decreases.

Commercial banks can't use the reserves to make loans or fund investments into new businesses. Since it constitutes a lost opportunity for the commercial banks, central banks pay them interest on the reserves. The interest is known as IOR or IORR (interest on reserves or interest on required reserves).

Open market operations

The central bank can either purchase or sell securities issued by the government to affect the money supply. For example, central banks can purchase government bonds. As a result, banks will obtain more money to increase the lending and money supply in the economy.

Expansionary vs. Contractionary Monetary Policy

Depending on its objectives, monetary policies can be expansionary or contractionary.

Political Environment

are many external environment factors affect business negatively and positively. Business managers must address these factors and make decisions that minimize the impact of external environment. These factors include political factors, economic, social, technological, legal and environmental also known as PESTLE Analysis.

Political factors and environment of a country impacts any business organization and can also introduce a risk factor can cause the business to suffer losses or compromise over its profit stream. Political environment can change because of the policies and actions of the prevailing government at every level, federal to local level. It is very important that a business should plan for the variability in the policies and regulations of the government to maintain a stable business environment.

Definition

Political factors are government regulations that influence business operation positively and negatively. Managers must keep a bird's eye view over political factors. These factors may be current and impending legislation, political stability and changes, freedom of speech, protection and discrimination laws are factors affecting business operation and activities

How Political Factors Affecting Business Environment

Political factors can impact a business by making **the** market environment more or less friendly for that business. Typically, governments have a great deal of power over businesses and many times, there is not much that businesses can do about it.

Political factors can impact businesses in various ways. These external environmental factors can add in a risk factor which can lead to a major loss in business. These factors can change the entire results and hence, companies should be able to deal with both local as well as international political outcomes.

- In addition to this, political factors not only have a direct impact but, it also impacts other factors as well which can have a significant effect on the business and its operating environment. There are certain factors that create inter-linkages in several ways like Political decisions affect the socio-cultural environment of the country.
- Political decisions have an impact on the economic environment.
- Politicians can also influence the acceptance of new technologies.
- Politicians can also influence the rate of development of new technologies.

<u>What Political Factors Affect Business Environment</u>

With a change in administration policies, there arise political factors that can change the entire business scenario. These changes can be economic, legal or social and can include the following factors:

- **Tax and economic policies:** Increasing or decreasing rate of taxes is a good example of a political component. Government regulations may raise the tax rate for some businesses and can lower the same for others due to specific reasons. This decision will directly impact businesses. This is why maintaining a strategy which can deal with such situations is very important.
- **Political stability:** Lack of political stability within a country can significantly impact the operations of a business. This can especially be true for businesses that are operating on the global scale. For instance, a hostile takeover can take over a government. Eventually, such a situation will lead to looting, riots and general disorder within the environment. Such situations can disrupt business operations and activities which can have a major impact on its bottom line.
- **Foreign Trade Regulations:** Every business has a need to expand business operation to other countries. However, political background of a country can influence the desire for a business to expand its operations. Tax policies that are particularly controlled by the government can induce a particular

business to expand operations in different regions whereas; other tax policies can hinder the process of business expansion for some industries. Government initiatives, which have been designed to support local businesses, might work against international companies when the question is of their competitiveness in a foreign region.

- **Employment Laws:** Employment laws are made to protect the rights of employees and include every aspect of employer/employee relationship. Employment law is an aspect that is very complex and involves several pitfalls as well. When businesses' are in touch with the latest developments in this law, they can manage to take their business in the right direction however, those who get it wrong needs to be completely prepared for the expensive results it will generate. In modern corporations, employees are almost 98% of the company for the accomplishments or lack thereof and any changes within employment law will, of course, have a great impact on the business operations.

- **Socio-Cultural Environment and their Impact on Business Operations**
- Businesses do not exist in a vacuum, and even the most successful business must be aware of changes in the cultures and societies in which it does business. As society and culture change, businesses must adapt to stay ahead of their competitors and stay relevant in the minds of their consumers.

Socio-Cultural Environment and their Impact on Business Operations

Businesses do not exist in a vacuum, and even the most successful business must be aware of changes in the cultures and societies in which it does business. As society and culture change, businesses must adapt to stay ahead of their competitors and stay relevant in the minds of their consumers.

Changing Preferences

A major socio-cultural factor influencing businesses and business decisions is changing consumer preferences. What was popular and fashionable 20 years ago may not be popular today or 10 years down the road. Different styles and priorities can undermine long successful products and services. For example, a clothing company must constantly be aware of changing preferences when creating new products or it will quickly become outdated.

Demographics

Changes in demographics are also a significant factor in the business world. As populations age, for example, markets for popular music and fashions may shrink while markets for luxury goods and health products may increase. Additionally, changes in the proportion of genders and different racial, religious and ethnic groups within a society may also have a significant impact on the way a company does business.

Advertising Techniques

Advertising is perhaps the area of business most closely in touch with socio-cultural changes. Advertising often seeks to be hip and trendsetting, and to do this, advertising agencies and departments cannot lose track of the pulse of the societies in which they engage in business. Changes in morals, values and fashions must all be considered when creating outward facing advertising.

Internal Environment

In addition to a company's interactions with the market and its customers, socio-cultural factors also impact a company's internal decision- making process. For example, changing gender roles and increasing emphasis on family life have led to increased respect for maternity and even paternity leave with organizations. Additionally, attitudes towards racial discrimination and sexual harassment have changed drastically over the years as a result of socio-cultural change.

Indian Economy

They are three sectors in the Indian economy, they are; primary economy, secondary economy, and tertiary economy. In terms of operations, the Indian economy is divided into organized and unorganized. While for ownership, it is divided into the public sector and the private sector. But today, we are only going to talk about the sectors of Indian economy and what consists of these sectors.

Sectors of Indian Economy

Primary Sector

The primary sector in India is the sector which is largely dependant on the availability of natural resources in order to manufacture the goods and also to execute various processes. The services in this sector are entirely dependant on the availability of the natural resources in order to keep the day-to-day operations running.

As we have the clear idea of this sector is, the best example to discuss in this sector is the agriculture sector. The other examples in this sector include fishing and forestry, but agriculture accounts for the largest in this sector.

One of the major problem that this sector faces is the underemployment and the disguised employment. Underemployment accounts for the workers not working to the best of their capabilities while the latter accounts for the workers not working to their true potential.

As a solution to the problems, the state, as well as the national government, can increase the funds for the irrigation facilities and provide loans for buying high-quality seeds and fertilizers.

Secondary Sector

The economy in the sector is dependent on the natural ingredients which are used to create the services and products offered and which at the end are used for consumption. In terms of value added to the products and services, this sector is the best sector. The major examples that fall under this category are transportation and manufacturing.

Both these sectors end product is the consumption by the people. This sector is responsible for the employment of almost 14 percent of the entire workforce currently working in India. The secondary sector also contributes to almost 28 percent of the share of GDP. This sector is the backbone of Indian economy and there are more development and growth in the near future.

Tertiary Sector

This sector contributes the largest in terms of share in GDP in India. The sector is also the service sector and is important when you consider the development of the other two sectors. Like the previous sector, this sector also adds the value to the products. This sector is responsible for employing 23 percentage of the workforce out of the total workforce currently working in India.

The example of this sector is all service sectors which IT services, consulting, etc. This sector contributes to almost 59 percent of the total share of GDP. The main problem that this sector is that the jobs which involve lower salaries do not attract much employment. And this remains the future dilemma as India is looking for double-digit growth in the near future.

Strategic Management

What is Strategy?

A strategy is a plan of action designed to achieve a specific goal or series of goals within an organizational framework.

Strategy involves the action plan of a company for building competitive advantage and increasing its triple bottom line over the long-term. The action plan relates to achieving the economic, social, and environmental performance objectives; in essence, it helps bridge the gap between the long-term vision and short-term decisions.

Strategic Management

Strategic management is the process of building capabilities that allow a firm to create value for customers, shareholders, and society while operating in competitive markets (Nag, Hambrick & Chen 2006). It entails the analysis of internal and external environments of firms to maximize the use of resources in relation to objectives (Bracker 1980). Strategic management can depend upon the size of an organization and the proclivity to change the organization's business environment.

The process of strategic management entails:

- Specifying the organization's mission, vision, and objectives
- Developing policies and plans that are designed to achieve these objectives
- Allocating resources to implement these policies and plans

As an example, let's take a company that wants to expand its current operations to producing widgets. The company's strategy may involve analyzing the widget industry along with other businesses producing widgets. Through this analysis, the company can develop a goal for how to enter the market while differentiating from competitors' products. It could then establish a plan to determine if the approach is successful.

The Importance of Strategy

Strategic management is critical to organizational development as it aligns the mission and vision with operations.

Key Points

- Strategic management seeks to coordinate and integrate the activities of the various functional areas of a business in order to achieve long-term organizational objectives.
- The initial task in strategic management is typically the compilation and dissemination of the vision and the mission statement. This outlines, in essence, the purpose of an organization.
- Strategies are usually derived by the top executives of the company and presented to the board of directors in order to ensure they are in line with the expectations of the stakeholders.
- The implications of the selected strategy are highly important. These are illustrated through achieving high levels of strategic alignment and consistency relative to both the external and internal environment.
- All strategic planning deals with at least one of three key questions: "*What do we do?*" "*For whom do we do it?*" and "*How do we excel?*" In business strategic planning, the third question refers more to beating or avoiding competition.

Key Terms

- **board of directors**: A group of people elected by stockholders to establish corporate policies and make managerial decisions.
- **mission statement**: A declaration of the overall goal or purpose of an organization.

Strategic management is critical to the development and expansion of all organizations. It represents the science of crafting and formulating short-term and long-term initiatives directed at optimally achieving organizational objectives. Strategy is inherently linked to a company's mission statement and vision; these elements constitute the core concepts that allow a company to execute its goals. The company strategy must constantly be edited and improved to move in conjunction with the demands of the external environment.

Strategy and Management

As a result of its importance to the business or company, strategy is generally perceived as the highest level of managerial responsibility. Strategies are usually derived by the top executives of the company and presented to the board of directors in order to ensure they are in line with the expectations of company stakeholders. This is particularly true in public companies, where profitability and maximizing shareholder value are the company's central mission.

The implications of the selected strategy are also highly important. These are illustrated through achieving high levels of strategic alignment and consistency relative to both the external and internal environment. In this way, strategy enables the company to maximize internal efficiency while capturing the highest potential of opportunities in the external environment.

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