

Business Environment

What is Business?

- It is a continuous production and distribution of goods and services with the aim of earning profits under uncertain market conditions.
- It is a form of regular activity conducted with an objective of earning profits for the benefit of those on whose behalf the activity is conducted.

Nature of Business

- An activity to earn profit by providing goods/services
- No limit of partners (can be 1 or 10,000)
- Main purpose should be earning i.e. economic activity

Economic/Non-Economic Activity

- An activity is said to be economic, if the purpose is to earn profit not social service.
 - e.g.
 - Running a restaurant: Economic Activity
 - House wife cooking : Non-Economic

Features/Characteristics of Business

1. Exchange of goods and services
2. Deals in numerous transactions
3. Profit is the main Objective
4. Business skills for economic success
5. Risks and Uncertainties
6. Buyer and Seller
7. Connected with production
8. Marketing and Distribution of goods
9. Deals in goods and services
Consumer goods
Producer goods
10. To Satisfy human wants
11. Social obligations

Objectives of Business

1. Profit
2. Growth
3. Customer Satisfaction
4. Employee Satisfaction
5. Quality products and services
6. Market Leadership
7. Employment creation
8. Service to Society.....

What is Business Environment?

- It consists of all those factors that have bearing on the business.....
- A set of conditions – Social, Legal, Economical, Political or Institutional that are uncontrollable in nature and affects the functioning of organization.

Types of Business Environment

- Mainly Business Environment divided into two types. These are:
 1. Internal Environment
 2. External Environment

Internal Environment

- ✓ The factors which can be controlled by company or
- ✓ Primary factors which directly affects the growth of organization..... man, material, money, machinery and management.

Types of Internal Environment

1. Value System
2. Mission & Objectives
3. Management Structure and Nature
4. Internal Power relationship
5. Human Resources
6. Company Image & Brand Equity

External Environment

- Those factors which are beyond the control of business enterprise are included in external environment.
- External Environment is divided into two parts
 1. Micro Environment: The environment which is close to business and affects its capacity to work is known as Micro Environment.
 2. Macro Environment: It includes factors that create opportunities and threats to business units. Following are the elements of Macro Environment.

Micro Environment

- **Suppliers**
- **Customers**
 - Wholesalers
 - Retailers
 - Industries
 - Government and Other Institutions
 - Foreigners
- **Market Intermediaries**
 - Middleman
 - Marketing Agencies
 - Financial Intermediaries
 - Physical Intermediaries
- **Competitors**
- **Public**

Macro Environment

- **Economic Environment:** It is very complex and dynamic in nature that keeps on changing with the change in policies or political situations. It has three elements:
 - Economic Conditions of Public
 - Economic Policies of the country
 - Economic System
 - Other Economic Factors: Infrastructural Facilities, Banking, Insurance companies, money markets, capital markets etc.

Macro Environment

- **Non-Economic Environment:** Following are included in non-economic environment:

1. Political Environment: It affects different units business extensively. Components are

- Political Belief of Government
- Political Strength of the Country
- Relation with other countries
- Defense and Military Policies
- Centre State Relationship in the Country
- Thinking Opposition Parties towards Business Unit

Macro Environment

2. Socio-Cultural Environment

- Influence exercised by social and cultural factors, not within the control of business, is known as Socio-Cultural Environment.
 - These factors include: attitude of people to work, family system, caste system, religion, education, marriage etc.

3. Technological Environment

- A systematic application of scientific knowledge to practical task is known as technology.
- Everyday there has been vast changes in products, services, lifestyles and living conditions, these changes must be analysed by every business unit and should adapt these changes.

Macro Environment

4. Natural Environment

- It includes natural resources, weather, climatic conditions, port facilities, topographical factors such as soil, sea, rivers, rainfall etc.
- Every business unit must look for these factors before choosing the location for their business.

5. Demographic Environment

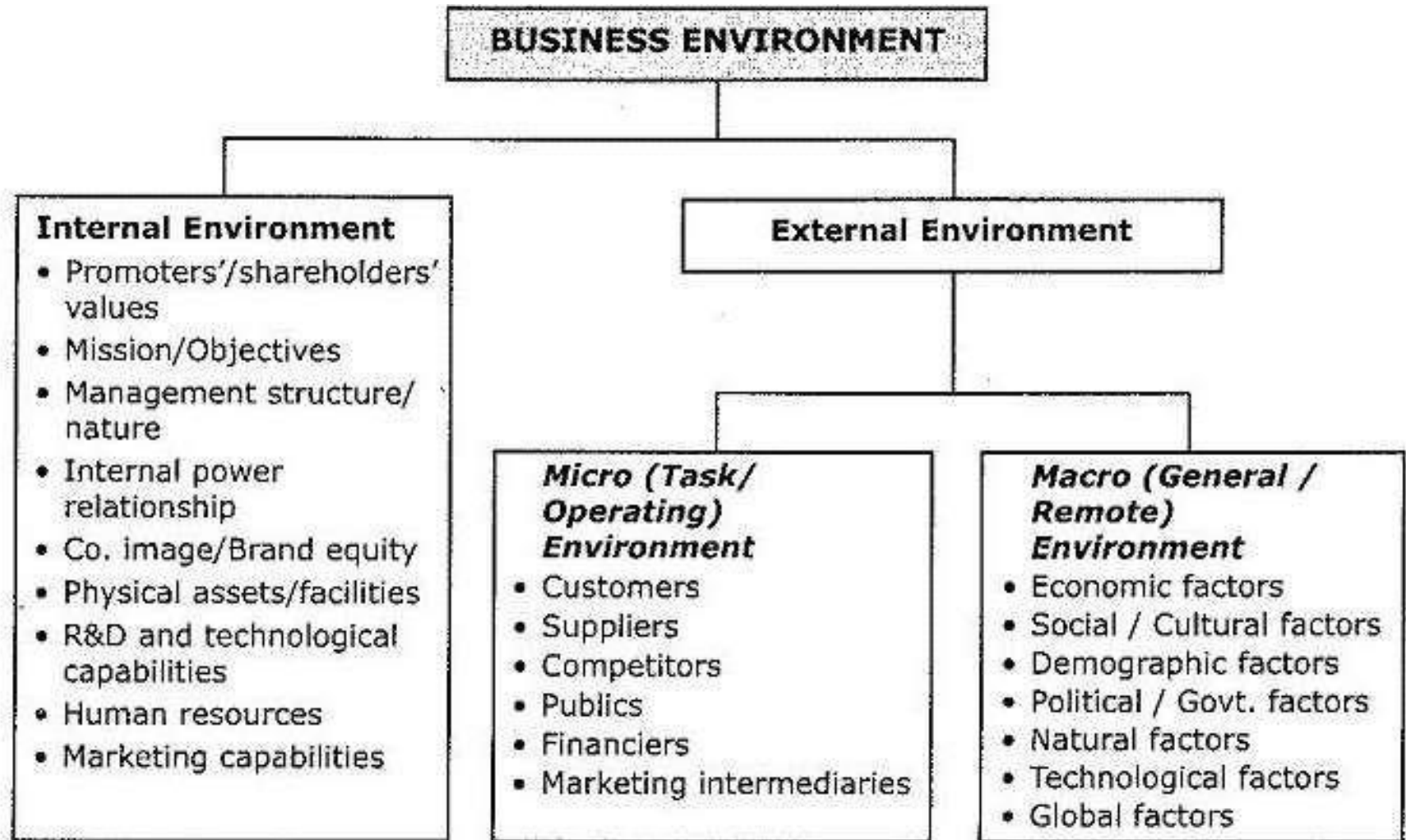
- It is a study of perspective of population i.e. its size, standard of living, growth rate, age-sex composition, family size, income level (upper level, middle level and lower level), education level etc.
- Every business unit must see these features of population and recognize their various needs and produce accordingly.

Macro Environment

6. International Environment

- It is particularly important for industries directly depending on import or exports.
- The factors that affect the business are
 - Globalization
 - Liberalization
 - Foreign business policies
 - Cultural exchange

Components of Business Environment



Characteristics

- Business environment is compound in nature.
- It is constantly changing process.
- It is different for different business units.
- It has both long term and short term impact.
- Unlimited influence of external environment factors.
- It is very uncertain.
- Inter-related components.
- It includes both internal and external environment.

Industrial Policy

Industrial Policy

- **Meaning**

- As an important document.
- Government's policy towards industries.

- **Why industrial policy?**

- To prevent the imbalances in the development of industries.
- To demarcate areas among the public and private sector.
- To direct the flow of scarce resources.
- To prevent the wasteful use of scarce resources.

Industrial Policy

- It indicated the respective roles of the public, private, joint and cooperative sectors; small, medium and large scale industries and underlined the national priorities and the economic development strategy.
- It also expressed government's policy towards, foreign capital and technology, labour policy, tariff policy etc., in respect of the industrial sector.

Industrial Policy

- Government's policy towards industries.
- The industrial development, and thereby the economic development to a very significant extent, has been guided, regulated and promoted by the industrial policy.

India's Industrial Policy from 1948 to 1991

- Industrial Policy, 1948
- Industrial Policy Resolution, 30th April 1956
- Industrial Policy, 1977
- Industrial Policy, 1980
- Industrial Policy 1991

Rationale

- Correct the imbalances in the development of industries
- Direct the flow of scarce resources in the most desirable areas of investment in accordance with national priorities
- Prevent the wasteful use of scarce resource and ensure their conservation and judicious utilization.

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Rationale

- Empower the government to regulate the establishment and expansion of private industry in accordance with the planned
- Give guidelines for importing foreign capital and the conditions on which such capital should be permitted to operate.

Industrial Policy, 1948

- **Main Features**

- Acceptance of the dual sectors:
Public and private
- Division of industries
- Small and cottage industries
- Role of foreign capital

Industrial Policy, 1948

I. Industry where central had monopoly

- Arms and ammunition
- Atomic energy
- Rail transport

II. Mixed sector

- Coal
- Iron and Steel
- Aircraft manufacture
- Shipbuilding
- Manufacture of telephone, telegraph and wireless apparatus, excluding radio receiving set
- Mineral oils

Contd ...

Industrial Policy, 1948

III. The field of government control

- Salt
- Automobiles and tractors
- Prime movers
- Electric engineering
- Other heavy machinery
- Machine tools
- Heavy chemicals, fertilizers and pharmaceuticals and drugs
- Electro-chemical industries
- Non-ferrous metals
- Rubber manufactures
- Power and industrial alcohol
- Cotton and woolen textiles
- Cement
- Sugar
- Paper and Newsprint
- Air and Sea transport
- Minerals
- Industries related to defense

IV. The field of the private enterprise

- All other industries which are not included in those three categories, were left open to private sector

Industrial Policy, 1956

- **Socialistic pattern of society.**
- **Objectives of policy**
 - To accelerate the rate of economic growth
 - To expand the public sector, develop heavy and machine making industry
 - To expand the cottage, village and small scale industries
 - To increase the employment opportunities
 - To achieve balanced industrial development
 - To reduce the existing disparities of income and wealth

Important features of 1956 Industrial Policies

- Adaptation of constitution
- Planning began to be implemented
- Socialist policy was accepted
- Government was rich enough to invest in public sector

Categorization of Industries

- **Schedule A**
 - 17 industries
- **Schedule B**
 - 12 industries
- **Private Sector Unit**

Schedule A (17 industries)

1. Arms and ammunition and allied items of defense equipments. Atomic energy.
2. Iron and Steel.
3. Heavy castings and forgings of iron and steel.
4. Heavy plant and machinery required for iron and steel production, for mining, for machinery tool. manufacture and for such other basic industries as may be specified by the Central Government.
6. Heavy electrical plant including large hydraulic and steam turbines.
7. Coal and lignite.
8. Mineral oils.
9. Mining of iron ore, manganese ore, chrome-ore, gypsum, sculpture, gold and diamond.
10. Mining and processing of copper, lead, zinc, tin, molybdenum and wolfram.
11. Minerals specified in the Schedule to the Atomic Energy (Control of production and Use) Order, 1953.
12. Aircraft.
13. Air transport.
14. Railway transport.
15. Shipbuilding.
16. Telephones and telephones cables, telegraph and wireless apparatus (excluding radio receiving sets).
17. Generation and distribution of electricity

Schedule B (12 industries)

1. All other minerals except 'minor minerals' as defined in Section 3 of the Minerals Concession Rules 1949.
2. Aluminum and other non-ferrous metals not included in Schedule A.
3. Machine tools.
4. Ferro-alloys and tool steels.
5. Basic and intermediate products required by chemical industries such as the manufacture of drugs, dye-stuffs and plastics.
6. Antibiotics and other essential drugs.
7. Fertilizers
8. Synthetic rubber.
9. Carbonization of coal.
10. Chemical pulp.
11. Road transport.
12. Sea transport.

Industrial Policy Up to 1991

- Reservation of Industries
- Dominance of Public Sector
- Entry and Growth Restrictions
- Restrictions on Foreign Capital and Technology

Industrial Policy, 1991

- **Objectives of the policy**
 - To maintain the sustained growth in productivity.
 - To achieve optimum utilization of human resources.
 - To attain the international competitiveness.
 - To enhance gainful employment.
 - To abolish the monopoly of any sector in any field of manufacture except on strategic or security ground.

Initiatives in the following area

- **Industrial licensing**
- **Foreign investment**
- **Foreign technology agreement**
- **Public sector policy**

Policy Measures

- Liberalization of industrial licensing policy
- Liberalization of locational policy
- Liberalized policy for small scale sector
- Liberalized policy for Foreign technology agreement

FIVE YEAR PLANS OF INDIA

History

- The Planning Commission was set up in March 1950.
- The main objective of the Government to promote a rapid rise in the standard of living of the people by
 - efficient exploitation of the resources of the country
 - increasing production and
 - offering opportunities to all for employment in the service of the community
- The Planning Commission was charged with the responsibility of making assessment of all resources of the country, augmenting deficient resources, formulating plans for the most effective and balanced utilisation of resources and determining priorities.
- Jawaharlal Nehru was the first Chairman of the Planning Commission.

Functions of the Planning Commission of India

- To make an assessment of the resources of the country and to see which resources are deficient.
- To formulate plans for the most effective and balanced utilization of country's resources.
- To indicate the factors which are hampering economic development.
- To determine the machinery, that would be necessary for the successful implementation of each stage of plan.
- Periodical assessment of the progress of the plan.

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Functions of the Planning Commission of India

- The commission is seeing to maximize the output with minimum resources with the changing times.
- The Planning Commission has set the goal of constructing a long term strategic vision for the future.
- It sets sectoral targets and provides the catalyst to the economy to grow in the right direction.
- The Planning Commission plays an integrative role in the development of a holistic approach to the formulation of policies in critical areas of human and economic development.

Plan	Target	Actual
First Plan (1951 – 56)	2.9%	3.6%
Second Plan (1956 – 61)	4.5%	4.3%
Third Plan (1961 – 66)	5.6%	2.8%
Plan Holiday		
Fourth Plan (1969 – 1974)	5.7%	3.3%
Fifth Plan (1974 – 79)	4.4%	4.8%
Sixth Plan (1980 – 85)	5.2%	6.0%
Seventh Plan (1985 – 90)	5.0%	6.0%
Eighth Plan (1992 – 97)	5.6%	6.8%
Ninth Plan (1997 – 2002)	6.5%	5.4%
Tenth Plan (2002 – 2007)	8.0%	--

First Five-Year Plan (1951–1956)

- The first Indian Prime Minister, Jawaharlal Nehru presented the first five-year plan to the Parliament of India on December 8, 1951.
- This plan was based on the Harrod-Domar model.
- The plan addressed, mainly, the agrarian sector, including investments in dams and irrigation.
- The total planned budget of Rs.2069 crore was allocated to
seven broad areas
 - irrigation and energy (27.2 percent)
 - agriculture and community development (17.4 percent)
 - transport and communications (24 percent)
 - industry (8.4 percent)
 - social services (16.64 percent)
 - land rehabilitation (4.1 percent), and
 - for other sectors and services (2.5 percent).

First Five-Year Plan (1951–1956)

- The net domestic product went up by 15%. The monsoon was good and there were relatively high crop yields, boosting exchange reserves and the per capita income, which increased by 8%.
- National income increased more than the per capita income due to rapid population growth.
- Many irrigation projects were initiated during this period, including the Bhakra Dam and Hirakud Dam.
- The World Health Organization, with the government, addressed children's health and reduced infant mortality, indirectly contributing to population growth.

Second Five-Year Plan (1956–1961)

- The second five-year plan focused on industry, especially heavy industry.
- The Second plan, particularly in the development of the public sector.
- The plan followed the Mahalanobis model, an economic development model developed by the Indian statistician Prasanta Chandra Mahalanobis in 1953.
- The plan attempted to determine the optimal allocation of investment between productive sectors in order to maximise long-run economic growth.
- The plan assumed a closed economy in which the main trading activity would be centered on importing capital goods.

Allocation

- The total amount allocated under the second five year plan in India was Rs.4,600 crore.
- This amount was allocated among various sectors:
 - Power and irrigation
 - Social services
 - Communications and transport
 - Miscellaneous

Third Five-Year Plan (1961–1966)

- The third plan stressed on agriculture and improvement in the production of wheat, but the brief Sino-Indian War of 1962 exposed weaknesses in the economy and shifted the focus towards the Defence industry.
 - Many cement and fertilizer plants were also built.
 - Punjab began producing an abundance of wheat.
 - Many primary schools have been started in rural areas.

Plan Holiday (1966-69)

- In 1965–1966, India fought a [Indo-Pak] War with Pakistan.
- Due to this war, there was a severe drought in 1965.
- The war led to inflation and the priority was shifted to price stabilisation.
- The construction of dams continued.

Fourth Five-Year Plan (1969–1974)

- At this time Indira Gandhi was the Prime Minister.
- The government nationalised 14 major Indian banks and the Green Revolution in India advanced agriculture.
- Main emphasis was on growth rate of agriculture to enable other sectors to move forward.
- First two years of the plan saw record production.
- The last three years did not measure up due to poor monsoon.
- Influx of Bangladeshi refugees before and after 1971 Indo-Pak war was an important issue.

Fifth Five-Year Plan (1974-79)

- The fifth plan was prepared and launched by D.D. Dhar.
- It proposed to achieve two main objectives:
 - removal of poverty (Garibi Hatao) and
 - attainment of self reliance
- Promotion of high rate of growth, better distribution of income and significant growth in the domestic rate of savings were seen as key instruments
- The plan was terminated in 1978 (instead of 1979) when Janta Party Govt. rose to power.
- **Rolling Plan (1978 - 80)**
 - There were 2 Sixth Plans. Janta Govt. put forward a plan for 1978- 1983.
 - However, the government lasted for only 2 years.
 - Congress Govt. returned to power in 1980 and launched a different

plan.

Sixth Five-Year Plan (1980 – 85)

- Focus – Increase in
 - national income,
 - modernization of technology,
 - ensuring continuous decrease in poverty and unemployment,
 - population control through family planning, etc.

Seventh Five-Year Plan (1985 - 90)

- Focus – rapid growth in food-grains production, increased employment opportunities and productivity within the framework of basic tenants of planning.
- The plan was very successful, the economy recorded 6% growth rate against the targeted 5%.

Eighth Five-Year Plan (1992 - 97)

- The eighth plan was postponed by two years because of political uncertainty at the Centre Worsening Balance of Payment position and inflation during 1990-91.
- The plan undertook drastic policy measures to combat the bad economic situation and to undertake an annual average growth of 5.6%.
- Some of the main economic outcomes during eighth plan period were rapid economic growth, high growth of agriculture and allied sector, and manufacturing sector, growth in exports and imports, improvement in trade and current account deficit.

Ninth Five Year Plan (1997- 2002)

- It was developed in the context of four important dimensions:
 - Quality of life
 - generation of productive employment
 - regional balance and
 - self-reliance

Objectives of the Ninth Five Year Plan

- to prioritize agricultural sector and emphasize on the rural development
- to generate adequate employment opportunities and promote poverty reduction
- to stabilize the prices in order to accelerate the growth rate of the economy
- to ensure food and nutritional security.
- to provide for the basic infrastructural facilities like education for all, safe drinking water, primary health care, transport, energy
- to check the growing population increase
- to encourage social issues like women empowerment, conservation of certain benefits for the Special Groups of the society
- to create a liberal market for increase in private investments

Tenth Five Year Plan (2002 - 2007)

- Attain 8% GDP growth per year. Achieved 7.7%
- Reduction of poverty ratio by 5 percentage points by 2007.
- Providing gainful and high-quality employment at least to the addition to the labour force.
- Reduction in gender gaps in literacy and wage rates by at least 50% by 2007.

Eleventh Five Year Plan (2007 - 2012)

- Accelerate GDP growth from 8% to 10%.
- Increase agricultural GDP growth rate to 4% per year.
- Create 70 million new work opportunities and reduce educated unemployment to below 5%.
- Raise real wage rate of unskilled workers by 20 percent.
- Reduce dropout rates of children from elementary school from 52.2% in 2003-04 to 20% by 2011-12.
- Increase literacy rate for persons of age 7 years or above to 85%.
- Raise the sex ratio for age group 0-6 to 935 by 2011-12 and to 950 by 2016-17.
- Ensure that at least 33 per cent of the direct and indirect beneficiaries of all government schemes are women and girl children.
- Connect every village by telephone by November 2007 and provide broadband connectivity to all villages by 2012.
- Increase forest and tree cover by 5 percentage points.

Questions