



UGC NET - COMMERCE SAMPLE THEORY

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Business Environment

Understanding the environment within which the business has to operate is very important for running a business unit successfully at any place. Because, the environmental factors influence almost every aspect of business, be it its nature, its location, the prices of products, the distribution system, or the personnel policies. Hence it is important to learn about the various components of the business environment, which consists of the economic aspects, the socio cultural aspects, the political framework, the legal aspects and the technological aspects etc. In this chapter, we shall learn about the concept of business environment, its nature and significance and the various components of the environment. In addition, we shall also acquaint ourselves with the concept of social responsibility of business and business ethics.

Meaning Of Business Environment:

The term 'business environment' connotes external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise. These include customers, competitors, suppliers, government, and the social, political, legal and technological factors etc. While some of these factors or forces may have direct influence over the business firm, others may operate indirectly. Thus, business environment may be defined as the total surroundings, which have a direct or indirect bearing on the functioning of business. It may also be defined as the set of external factors, such as economic factors, social factors, political and legal factors, demographic factors, technical factors etc., which are uncontrollable in nature and affects the business decisions of a firm.

Types of Business Environments

Confining business environment to uncontrollable external factors, it may be classified as Economic environment; and Non-economic environment.

1. **Economic environment:** The economic environment includes economic conditions, economic policies and economic system of the country.

2. **Non-economic environment:** Non-economic environment comprises social, political, legal, technological, demographic and natural environment.

1. **Economic environment:**

- **Economic Conditions:** The economic conditions of a nation refer to a set of economic factors that have great influence on business organizations and their operations. These include gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market etc. All these help in improving the pace of economic growth.
- **Economic Policies:** All business activities and operations are directly influenced by the economic policies framed by the government from time to time. Some of the important economic policies are:
 - Industrial policy
 - Fiscal policy
 - Monetary policy
 - Foreign investment policy
 - Export-Import policy (Eximpolicy)

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.

- **Economic System:** The world economy is primarily governed by three types of economic systems, viz., Capitalist economy; Socialist economy; and Mixed economy. India has adopted the mixed economy system which implies co-existence of public sector and private sector.

2. **Non-Economic Environment**

The various elements of non-economic environment are as follow :

- **Social Environment** : The social environment of business includes social factors like customs, traditions, values, beliefs, poverty, literacy, life expectancy rate etc. The

social structure and the values that a society cherishes have a considerable influence on the functioning of business firms.

- **Political Environment** : This includes the political system, the government policies and attitude towards the business community and the unionism. All these aspects have a bearing on the strategies adopted by the business firms. The stability of the government also influences business and related activities to a great extent.
- **Legal Environment** : This refers to set of laws, regulations, which influence the business organizations and their operations. Every business organization has to obey, and work within the framework of the law.

The important legislation that concern the business enterprises include:

- Companies Act, 1956
 - Foreign Exchange Management Act, 1999
 - The Factories Act, 1948
 - Industrial Disputes Act, 1972
 - Payment of Gratuity Act, 1972
 - Industries (Development and Regulation) Act, 1951
 - Prevention of Food Adulteration Act, 1954
 - Essential Commodities Act, 2002 etc.
- **Technological Environment** : Technological environment include the methods, techniques and approaches adopted for production of goods and services and its distribution. The varying technological environments of different countries affect the designing of products.
 - **Demographic Environment** : This refers to the size, density, distribution and growth rate of population. All these factors have a direct bearing on the demand for various goods and services.

- **Natural Environment** : The natural environment includes geographical and ecological factors that influence the business operations. These factors include the availability of natural resources, weather and climatic condition, location aspect, topographical factors, etc. Business is greatly influenced by the nature of natural environment.

Importance of Business Environment

There is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively. As stated above, this business environment is multifaceted, complex, and dynamic in nature and has a far-reaching impact on the survival and growth of the business. To be more specific, proper understanding of the social, political, legal and economic environment helps the business in the following ways:

- **Determining Opportunities and Threats**: The interaction between the businesses and its environment would identify opportunities for and threats to the business. It helps the business enterprises in meeting the challenges successfully.
- **Giving Direction for Growth**: The interaction with the environment leads to the opening up of new frontiers of growth for the business firms. It enables the business to identify the areas of growth and expansion of their activities.
- **Continuous Learning**: Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in the realm of business.
- **Image Building**: Environmental understanding helps the business organizations in improving their image by showing their sensitivity to the environment within which they are working.

For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power.

- **Meeting Competition:** It help the firms to analyze the competitors' strategies and formulate their own strategies accordingly.
- **Identifying Firm's Strength and Weakness:** Business environment help to identify the individuals' strengths and weaknesses in view of the technological and global developments.

Competition Policy and Consumer Protection

- **Consumer protection law in India**

The Consumer Protection Act, 1986 is a milestone in the history of socio-economic legislation in the country. It is one of the most progressive and comprehensive pieces of legislations enacted for the protection of consumers. It was enacted after in-depth study of consumer protection laws in a number of countries and in consultation with representatives of consumers, trade and industry and extensive discussions within the Government.

The main objective of the Act is to provide for the better protection of consumers. Unlike existing laws which are punitive or preventive in nature, the provisions of this Act are compensatory in nature. The Act is intended to provide simple, speedy and inexpensive redressal to the consumers' grievances, and remedies of a specific nature and award of compensation wherever appropriate to the consumer. The Act has been amended in 1993 and 2002, both to extend its coverage and scope and to enhance the powers of the redressal machinery.

The salient features of the Act are summed up as under.

- The Act applies to all goods and services unless specifically exempted by the Central Government.
- It covers all the sectors whether private, public or cooperative.
- The provisions of the Act are compensatory in nature.

- A provision for issue of interim orders by the redressal forums.
- Power to issue punitive damages.
- Recovery of compensation amount through a certificate in the same manner as arrears of land revenue.
- Creation of benches of State and National Commissions.

Competition law India

- **Introduction**

Globalization has deregulated the access to the markets and has unleashed competition in international business. The legislation of a powerful competition law that responds to the issues of domestic and external competition is felt necessary by the participating countries of globalization. However, development experiences being varied for developed and developing countries, policy perspectives determine the spirit of legislation. The recently enacted Competition Act, 2002 of India reflects a bifocal vision of competition policy that addresses the short-term and long-term policy issues with a focus on consumer welfare.

- **Need for the Competition Law**

1. Globalization of trade has put greater competition among the business enterprises of the developing countries due to the free access to the global markets.
2. The absence of equitable competition rules, there is every possibility that the large business enterprises may take good advantage of exercising the dominant market power, to control the market place activities by nefarious means like the establishment of cartels, which ultimately affect the interests of the business organizations in the developing countries.
3. The Globalization results in de-regulation, free access to the markets, liberalization of prices, privatization of business, elimination of trade barriers and liberalization of trade and investment too.
4. The enactment of powerful competition law is felt inevitable and dire need arose to curtail the monopoly of big business enterprises that are created due to the free and liberalized access to the markets in the international business.

Environment Protection

- **Introduction:** The environment may be defined as “our physical and biological system in which man and organisms live as a whole and these systems have many interacting capacities. These capacities of the environment generally include rocks, minerals, soil and water, its land and their forests and potential vegetation, its animal life and potentiality of livestock, husbandry and its climate. According to section 2(a) of the Environment (Protection) Act, 1986, “environment” includes water, air and land and the inter-relationship which exists among and between water, air and land, and human beings, other living creatures, plants, micro-organisms and property. Damage to any one of them damages the environment. Scientific and technological advancement and mismanagement of natural resources have given rise to various environmental problems such as pollution of air, water and noise, which have adverse effects on flora, fauna and human health.
- **Economic Planning**
 1. **Essentials for Planning**

Economic planning involves the acceptance of clearly defined system of objectives in terms of which to frame overall policies. It also involves the formulation of a strategy for promoting the realization of ends defined. Planning is essentially an attempt at working out a rational solution of problems, an attempt to coordinate means and ends; it is, thus, different from the traditional hit-and-miss methods by which ‘reforms’ and ‘reconstruction’ are often undertaken, while there is need for concentrating effort on the more immediate problems; planning implies the readiness on the part of the community to view the social process as one whole and to take action designed to shape his process along desired lines over a defined period. The following are the essentials of planning:

 - Planning is a conscious effort of a community to improve the condition of its people. It is, therefore, quite different from the occasional reforms made to remedy the shortcomings of society here and there.

- Planning requires an all-round effort to improve society. There is, no doubt, that the development of society must be fostered as a whole and thus planning must be comprehensive. A total effort must be made on the economic, social, political and psychological fronts to get rid of the obstacles in the path of social and economic progress.
- Planning is a continuous process because the magnitude of the task undertaken is enormous. Thus, it requires a clear statement of the long period objectives. It also necessitates a clear definition of the political parameters. i.e., the institutional framework within which society proposes to foster economic growth.
- Planning implies the coordination of means to ends. The purpose of planning is to make the best possible use of available resources to achieve social ends.
- Planning implies flexibility in view of the experience gained in the process of planning.
- Planning should lead to speedy economic development if it is to have any meaning for the masses. Economic growth fostered under planning must be perceptible because very slow and imperceptible changes cannot catch the imagination of the people.

2. Objective of Planning

Four broad objectives are laid down by a society when it endeavors to maximize human welfare through planning.

- To increase production to the maximum possible extent.
- To achieve full employment.
- To reduce the inequalities of income and wealth.
- To provide social justice.

3. Economic Planning in India

After independence, Prime Minister of India, Jawaharlal Nehru set up Planning Commission in 1950. In the second plan, he gave top priority to development of heavy industries in capital goods and basic goods sectors. Since 1951, India has implemented Tenth five year plan (2002-07) and the eleventh five year plan for the period 2007-2012 is being implemented. For three year from 1966-69, India had to implement annual plans because of

contingencies. After that there have been annual plans in 1979-80; 1990-91 and 1991-92 respectively.

4. Mechanism of Indian Planning System

India adopted mixed economy system, whereby, both market mechanism and planning system worked together. Five year plans were prepared by Planning Commission, which is a non-statutory body headed by Prime Minister, who is the chairman of the commission. Full time Deputy Chairman is appointed who holds the rank of Cabinet Minister. Under the plan, government sets the target for private sector and public sector. Under Industrial Policy Resolution released by government from time to time, government decides the sectors reserved for public sector and the sectors in which private sectors are allowed. To control and regulate the industries so that targets set by five year plans are fulfilled, an Act was passed by the Parliament in 1951, known as the 'Industries (Development and Regulation) Act, 1951. The Act provides for following provisions.

- The regulation of industrial Investment and Production according to plan priorities and targets.
- Reserve certain sectors for small scale industries.
- Prevention of monopoly and concentration of ownership of industries.
- Balancing regional development with a view to reduce disparity in the levels of development of different regions of the economy. Government implement location policy as provided in this Act to encourage business houses to set up factories in backward regions.
- This Act provides guidelines for issuing of licenses by D.G.T.D. [Director General of Technical Development].

Summary

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