Collegedunia NCERT Notes

The Ultimate NCERT Revision Guide for Class 12 Business Studies

Chapter 3: Business Environment

1. Meaning of Business Environment

NCERT Definition

Business environment means the sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but that may affect its performance. It includes economic, social, technological, political and legal forces along with the firm's customers, competitors, suppliers, investors, governments, consumer groups, courts, media and other institutions working outside the enterprise.

External only

Business environment is the EXTERNAL forces. Internal forces (employees, board, owners, machines) are inside the firm and are NOT part of the business environment.

Why it matters

The firm draws inputs (capital, raw materials, labour, technology) from the environment and returns outputs (goods, services, taxes, dividends) to it. A change in any external force, a tax hike, a new technology, a shift in consumer taste, a political event, can lift performance or sink it.

2. Features (Characteristics) of Business Environment

1. **Totality of external forces:** business environment is the sum total of all things external to a business firm; it is aggregative in nature.
2. **Specific and general forces:** specific forces (investors, customers, competi-

tors, suppliers) affect the firm directly and immediately; general forces (social, political, legal, technological) affect all firms indirectly.

3. **Inter-relatedness:** different elements are closely inter-related. Example: increased life expectancy + health awareness $\rightarrow$ rising demand for soft drinks, fat-free oils and health resorts.
4. **Dynamic nature:** environment keeps changing, through technological improvement, shifts in consumer preferences, or entry of new competition.
5. **Uncertainty:** environment is largely uncertain; difficult to predict future happenings, especially in IT or fashion industries.
6. **Complexity:** numerous interrelated and dynamic forces from different sources make it difficult to grasp the environment in its totality; easier to understand in parts.
7. **Relativity:** business environment differs from country to country and region to region. Political conditions in the USA differ from those in China or Pakistan; demand for sarees is high in India but almost non-existent in France.

3. Importance of Business Environment

Six Reasons (NCERT)

1. **Identify opportunities + get first-mover advantage.** Early identification lets a firm beat rivals to a positive trend. Example: Maruti Udyog became the small-car leader because it was the first to recognise the need for small cars in an environment of rising petrol prices and a large middle class.
2. **Identify threats and early warning signals.** If an Indian firm sees an MNC entering with new substitutes, it acts as a warning to improve quality, cut cost or advertise more aggressively.
3. **Tap useful resources.** Environment is the source of inputs (finance, machines, raw materials, power, labour) and the outlet for outputs (goods, taxes, returns). Knowing the environment helps design a better resource strategy.
4. **Cope with rapid changes.** Turbulent markets, fragmented customer segments, rapid technology shifts and global competition demand continuous environmental scanning.
5. **Assist in planning and policy formulation.** Environmental analysis feeds future strategy and decision-making policy.
6. **Improve performance.** Firms that continuously monitor the environment and adapt their practices not only do better today but survive longer in the market.

4. Dimensions of Business Environment

The Five Dimensions, ESTPL

- **Economic environment:** interest rates, inflation, changes in disposable income, stock market indices, value of the rupee. Example: low long-term interest rates boost spending on homes and cars purchased on EMIs.
- **Social environment:** traditions (Diwali, Eid, Christmas), values (freedom, equality, social justice), social trends (health-and-fitness movement), society's expectations from business.
- **Technological environment:** scientific improvements, innovations and new methods. Example: Internet, mobile, automation, robotics, biotech, food preservatives, lasers.
- **Political environment:** political stability, peace, attitude of elected representatives towards business. Stability builds investor confidence; instability shakes it.
- **Legal environment:** legislations, administrative orders, court judgments. Example: Companies Act 2013, Industries (Development and Regulation) Act 1951, FEMA, Consumer Protection Act 1986, Competition Act 2002.

ESTPL

Economic, **S**ocial, **T**echnological, **P**olitical, **L**egal. Five dimensions, NCERT order.

Components of Economic Environment (NCERT box, p.75)

- Structure of the economy (relative role of private and public sectors).
- GNP and per capita income at current and constant prices.
- Rates of saving and investment.
- Volume of imports and exports.
- Balance of payments and foreign-exchange reserves.
- Agricultural and industrial production trends.
- Money supply, public debt (internal + external), planned outlay.

Major Elements of Social Environment (NCERT box, p.77)

Attitudes towards product innovation, lifestyles and consumer preferences; concern with quality of life; life expectancy; expectations from the workforce; presence of women in the workforce; birth and death rates; population shifts; literacy rates; consumption habits; composition of family.

Major Elements of Political Environment (NCERT box, p.80)

Prevailing political system; degree of politicisation of business; dominant ideologies of major parties; political institutions; level of political morality; extent of government intervention in business; nature of India's relationship with foreign countries.

Legal compliance is non-negotiable

Non-compliance with laws (Companies Act, FEMA, Consumer Protection, Competition Act, Industrial Disputes Act, Factories Act) can land the firm in legal trouble. Knowledge of rules and regulations is a pre-requisite for better business performance.

5. Economic Environment in India

At Independence (1947)

- Economy was mainly agricultural and rural.
- About 70% of working population was employed in agriculture.
- About 85% of population was living in villages.
- Production used low-productivity technology.
- Communicable diseases were widespread; no good public health system.

Pre-1991 Strategy

Government took control of key industries, did central planning (Five-Year Plans), gave the lead role to the public sector for infrastructure and heavy industry, and restricted the private sector through licensing. India followed the licence-permit-quota raj for over four decades.

The June 1991 crisis triggered the reforms

By 1991 India faced a fiscal deficit of **6.6% of GDP**, internal debt at **50% of GDP**, GNP growth dropping to **1.4%**, foreign-exchange reserves barely covering a few weeks of imports, soaring inflation, a **26.7% rupee depreciation** against the US dollar, and the country had to pledge **20 tonnes of gold** to SBI and **47 tonnes of gold** to the Bank of England for a $600 million loan. The crisis forced the New Industrial Policy of **July 1991**.

5.1 LPG: New Industrial Policy 1991

Liberalisation (L)

End of the licence-permit-quota raj. Specifically:

1. Abolishing licensing in most industries (kept only for a short list).
2. Freedom in deciding scale of business activities (no expansion / contraction caps).
3. Removal of restrictions on movement of goods and services.
4. Freedom in fixing prices of goods and services.
5. Reduction in tax rates and lifting unnecessary controls.
6. Simplifying procedures for imports and exports.
7. Easier attraction of foreign capital and technology.

Privatisation (P)

A greater role for the private sector and a reduced role for the public sector. The Government limited the public sector to four industries of strategic importance, carried out disinvestment in many PSUs (transfer of stake), and referred loss-making and sick enterprises to the Board of Industrial and Financial Reconstruction (BIFR).

Globalisation (G)

Integration of the Indian economy with the world economy via:

- Import liberalisation: removing licensing, tariff and quantitative restrictions.
- Export promotion through tariff rationalisation.
- FDI allowed up to 100% in many sectors; FIPB set up.
- Convertible rupee, automatic technology agreements with foreign companies.

A truly global economy implies free flow of goods, capital, information, technology and people across nations, with a common dispute-settlement mechanism.

5.2 Seven Impacts of LPG on Indian Business and Industry

The Seven Impacts

1. **Increasing competition:** from domestic players (delicensing) and foreign players (FDI + reduced tariffs).
2. **More demanding customers:** greater choice, higher quality, lower price awareness.
3. **Rapidly changing technological environment:** firms must keep up-

grading or die.

4. **Necessity for change:** no firm can sit still; continuous adaptation is mandatory.
5. **Need for developing human resources:** new skills, new roles, continuous training.
6. **Market orientation:** from product-oriented to customer-oriented strategy.
7. **Loss of budgetary support to the public sector:** PSUs must compete on their own without guaranteed government funding.

Memory aid for the 7 impacts

"**Competition** pulls in **Customers** who want **Tech**; firms accept **Change**, build **HR**, become **Market**-oriented, and PSUs lose **Budgetary** support."

6. Demonetisation (8 November 2016)

What Happened

On **8 November 2016**, the Government of India announced that **Rs. 500 and Rs. 1,000** currency notes ceased to be legal tender from that midnight. These two notes constituted about **86%** of the money in circulation. New **Rs. 500 and Rs. 2,000** notes were issued by RBI. The aim was to curb corruption, counterfeiting and the accumulation of black money.

Features of Demonetisation (NCERT, four points)

1. **Tax administration measure:** declared cash was deposited and exchanged; holders of unaccounted wealth had to declare it and pay tax at a penalty rate.
2. **Shift in stance on tax evasion:** signal that evasion will no longer be tolerated.
3. **Channelling savings into the formal financial system:** bank deposits surged; banks could offer base loans at lower interest rates.
4. **Push for a "less-cash" or cashless economy:** more digital transactions through cell phones, PoS machines, e-wallets; formalisation of unorganised economy.

6.1 Impact of Demonetisation (NCERT table, p.87)

Six Impact Lines

- **Money / Interest rates:** cash transactions fell, bank deposits increased, financial savings rose. Interest rates declined due to deposit surge.
- **Private wealth:** declined, because some high-denomination notes were not returned and real-estate prices fell.
- **Public sector wealth:** *no effect*.
- **Digitisation:** digital transactions among new users (RuPay, AEPS) rose sharply.
- **Real estate:** prices declined (cash-driven sector slowed down).
- **Tax collection:** income tax collection rose because of increased disclosure.

Three sections of society

Digitalisation hit three sections: the *poor* (largely outside digital economy), the *less affluent* (covered under Jan Dhan accounts and RuPay cards), and the *affluent* (fully conversant with digital transactions).

7. General vs Specific Environment

Two Layers

- **General environment** = forces affecting all firms in a country. The five dimensions (Economic, Social, Technological, Political, Legal) fall here. Example: a hike in income tax affects every Indian company.
- **Specific environment** = forces affecting one firm directly: its customers, competitors, suppliers, investors and financial system. Example: Apple's specific environment includes Foxconn (supplier) and Samsung (competitor); Hindustan Unilever is unaffected by either.

Test cue

A question about "customers" or "competitors" is testing the SPECIFIC environment. A question about "inflation" or "GST" is testing the GENERAL environment.

8. Key Takeaways

1. Business environment is the **sum total of all external forces** affecting a business.
2. **Seven characteristics:** totality, specific + general, inter-relatedness, dynamic, uncertainty, complexity, relativity.
3. **Six benefits** of scanning: opportunities + first-mover, threats + early warning, tap resources, cope with change, planning + policy, improved performance.
4. **Five dimensions (ESTPL):** Economic, Social, Technological, Political, Legal.
5. **LPG (1991)** = Liberalisation + Privatisation + Globalisation, triggered by the June 1991 fiscal and forex crisis.
6. **Seven impacts of LPG:** competition, demanding customers, technology change, change necessity, HR development, market orientation, loss of budgetary support.
7. **Demonetisation (8 Nov 2016):** withdrew Rs. 500 and Rs. 1,000; pushed cashless economy, formalised savings, broadened the tax base.