BUSINESS ENVIROMENT

Objectives

After studying this unit, you should be able to :

- Define what you mean by "environment"
- Classify the complex environmental variable on the basis of objective criteria
- Identify the critical elements of economic environment of business
- Analyse the interactions between economic and non-economic environment
- Explain the impact of economic environment on business management; and
- Illustrate your understanding of economic environment with reference to the Indian business situation.

Structure

1.1 INTRODUCTION

You may have a variety of reasons for studying this course, but the main reason, we presume, is to become a successful manager. Your success or failure as a manager depends on a number of factors and these factors may not always be within your control; very often such factors constitute your work environment. These include your job, your department, your organisation, your nation and the world around you. After all, as a manager you do not function in a vacuum. You exist and operate within and not without, an environment. Therefore as a manger when you think, or take decisions, you cannot neglect the limitations of your environment. Just think for a while and then answer. Don't you arrive at decisions after examining the possible reactions from the environment in which you are placed ? Say, as a marketing manager, would you not study your market environment before launching a new product ? Or, as a finance manager, wouldn't you study how the capital and money markets of the country are structured and organised before deciding on the sources and uses of your funds ? Or, as a personnel managers wouldn't you care to find the rules and regulations laid down by the government on subjects like reservation before undertaking recruitment and selection of your required staff? When you have answered these questions, you will discover that all your answers are in the affirmative : “Yes, I would”. You can’t do without thinking about your environment. As a business manager, you have to constantly evaluate your business environment.

This opening unit aims to set you thinking about thee ideas. It aims to help you to : precisely define “environment”, classify your business environment on tube basis of some criteria; identify some of the critical elements of economic environment of business establish the nature of interaction between economic environmental and business management; and analyse the interaction between economic and non-economic environment variables.

In pursuing these aims and objectives, our focus will primarily be on the Indian environment of business. We shall trey to identify, describe and analyse the Indian situation to understand its impact on our business. Our ultimate purpose is to train our business mangers to face the macro-level environment of business. As managers, wherever you are be it in the public or the private sector, you have to remain alive and alert to your environment so that you are successful in your day-to-day business operations.

1.2 BUSINESS ENVIROMENT

The term “environment” refers to the totality of all the factors which are external to and beyond the control of individual business enterprises and their managements. Environment furnishes the macro-context, the business firm is the micro-unit. The environmental factors are essentially the “givens” within which firms and their managements must operate. For example, the value system of society, the rules and regulations laid down by the Government, the monetary policies of the central bank, the institutional set up of the country, the ideological beliefs of the leaders, the attitude towards foreign capital and enterprise, etc., all constitute the environment system within which a business firm operates. These environmental factors are many in numbers and various in form. Some of these factors are totally static, some are relatively static and some are very dynamic – they are changing every now and then. Some of these factors can be conceptualized and quantified, while other can be only referred to in qualitative terms. Thus, the environment of business is an extremely complex phenomenon.

The environmental factors generally vary from country to country. The environment that is typical of India may not be found another countries like the USA the (former) USSR, the UK, and Japan. Similarly, the American/Soviet/British/Japanese environments may not be found in India. There may be some factors in common, but the order and intensity of the environmental factors do differ between nations. What to say of countries, the magnitude and direction of environmental factors differ over regions within a country, and over localities within a region. Thus, one may talk of local, regional, national (domestic) and international (foreign) environment of business. For example, the local custom of “coolie” labour, the climate of the northern region of Assam, the policies of the State and Central Governments in India and the size of the world market : all these factors together will have an important bearing on tea industry. The production, consumption and marketing of tea will be affected by environmental factors.

The environment differs not only over space but also over time within a country. As such, we can talk of temporal patterns of environment, i.e., past, present and future environment. Future environment is the product of past and present environments. The Indian economy of tomorrow will be influenced by what the state of the economy is at present and what it was in the past.

Sometimes the environment may be classified into market environment and non-market environment depending upon whether a business firm’s environment is influenced by market forces like demand, supply, number of other firms and the resulting price competition, or non-price competition, etc., or by non-market forces like Government laws, social traditions, etc.

Finally, we may classify the environment into economic and non-economic. Non-economic environment refers to social, political, legal educational and cultural factors that affect business operations. Economic environment, on the other hand, is given shape and form by factors like the fiscal policy, the monetary policy, the industrial policy resolution, physical limits on output, the price and income trends, the nature of the economic system at work, the tempo of economic envelopment, the national economic plan, etc. The non-economic environment has economic implications just the economic environment may have non-economic implications. Since the environment is the sum total of the history, geography, culture, sociology, politics and economic of a national, the interaction between economic and non-economic forces is bound to take place.

Activity 1

Can you now recapitulate the various criteria on the basis of which a business environment may be classified ? Place the criterion on the left and side and the suggested classification of environment according to that specific criterion on the right hand side.

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Now, think of your own organisation and its business operations. If you are not working in any organisation, then think of a firm, farm factory, establishment or institution you are familiar with. Considering its present operations, identify some of its environmental factors as in the model given below.

Organisation : Indian Airlines (IA)

Environmental factors/forces within which IA is operating :

Social	**Political**	**Economic**	**Physical**
IA carries various types of passengers: Businessmen, government officials, private individuals and tourists.	IA comes under the Ministry of Civil Aviation; it is subject to parliamentary control.	• IA's traffic is growing despite the fact that air travel is becoming costlier. • Fuel economy is IA's primary concern today.	The fleet composition of IA is quite modern. However, IA cannot use the Airbus for all its sectors because the airport facilities are not adequate.

Your Organisation ……………………………………………………………………………

Environmental factors/forces “

Social	**Political**	**Economic**	**Physical**

Do not proceed further without completing this Activity. It should be emphasised at this initial stage that you will must much of the potential benefit of the course if you do not attempt the Activities given in this unit. If you have worked through the above Activity as directed, you will find that it is easier to describe then to identify and classify the environmental factors.

In this unit, our primary concern is the study of economic environment of business. You may be wondering why we have chosen the economic environment to begin with. Let us examine some of its basic propositions.

1.3 SOME BASIC PROPOSITIONS

As a prelude to the description and analysis of the business environment in any economy, you may examine the three basic propositions given below :

1. Business is an economic activity.
2. A business firm is an economic unit.
3. Business decision-making is an economic process.

These propositions may be examined separately or jointly to justify the study of the economic environment of business in any country.

Business is an economic activity

An economic activity involves the task of adjusting the mans (resources) to the ends (targets), or the ends to the means. An economic activity may assume different forms such as consumption, production, distribution, and exchange. The nature of business differs deepening upon the form of economic activity being undertaken and organised. For example, manufacture is primarily concerned with production; the stock exchange.

For example, manufacture is primarily concerned with production; the stock exchange business of Government is to run the administration. The Government may also own, control and mange public enterprises. The business of banks is to facilitate transactions with short-arm and long-term ends. These examples can be easily multiplied. The point to be noted is that each business has a target to achieve, and for this purpose each business has some resources at its disposal. Sometimes the target has to be matched with the given resources, and sometimes the resources have to be matched with the given target, Either way, the task of business is to optimize the outcome of economic activities.

A business firm is an economic unit

A business firm is essentially a transformation unit. It transforms input into outputs of goods or services, or a combination of both. The nature of input requirements and the type of output flows are determined by the size, structure, location and efficiency of the business firm under consideration. Business firms may be of different sizes and forms. They may undertake different types of activities such as mining, manufacture, farming, trading, transport, banding etc. The motivational objective underlying all these activities is the same viz., profit maximization in the long run. Profit is essentially “a surplus value”- the value of outputs in excess of the values of inputs or the surplus of revenue over the cost. A business firm undertakes the transformational progress to generate this “surplus value”. The firm can grow further if the surplus value is productively invested. The firm, therefore, carefully plans the optimum allocation of resources (i.e., men, money, material, machine's time, energy, etc.) to get optimum production. The entire process of creating, mobilisation and utilisation of the surplus constitutes the economic activity of the business firm.

Business decision-making is an economic process

Decision-making involves making a choice from a set of alternative courses of action. Choice is at the root of all economic activity. The question of choice and evaluation arises because of the relative scarcity of resources. If the resources had not been scarce, an unlimited amount of ends could have been met. But the situation of resources constraint is very real. A business firm thinks seriously about the optimum allocation of resources because resources are limited in supply and most resources have alternative uses. The firm, therefore, intends to get the best out of given resources or to minimise the use of resources for achieving a specific target. In other words, when "input" is the constraining factor, the firm's decision variable is the "output". And when "output" is the constraining factor, the firm's decision variable is the "input". Whatever may be the decision variable, procurement or production, distribution or sale, input or output, decision-making is invariably the process of selecting the best available alternative. That is what makes it an economic pursuit.

Since business is an economic activity, a business firm an economic unit, and business decision-making an economic process, it is the economics environment of business which is the primary consideration in evaluating the business policies, business strategies and business tactics of a corporate entity in any national economy.

Activity 2

1. What is an economic problem ?

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2. What is the optimum economic activity ?

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3. Why, or why not, should the organisation you work for be treated as an economic unit ?

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Activity 3

Get some printed literature concerning your own organisation or any other business organisation, or you can even read the “corporate news” in magazines like Business India, Business World, Business Today. Attempt an economic interpretation of the facts and figures that you at your disposal. You may begin by asking similar questions as given in Activity 2. Briefly jot down the points.

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You may elaborate and substantiate these points, wherever required.

1.4 ECONOMIC ENVIRONMENT

You may now consider a firm as an economic institution in a market system. The market behaviour of the firm reflects the nature of the economic decisions taken by the manger of the firm. Micro-economic decision-making by the firm had nevertheless to be made within the broader macro-economic environment. The economic environment of business refers to the broad characteristics of the economic system in which a business firm operates.

The present day economic environment of business is a complex phenomenon. The business sector has economic relations with the Government, the capital market, the household sector and the foreign sector. These different sectors, together, influence the trends and structure of the economy. The form and functioning of the economy varies from country to country. The design and structure of an economic system is conditioned by socio-political arrangements. Such arrangements are relevant from the standpoint of macro-economic decision-making.

For example, in a democratic set up, people exercise an influence, direct or indirect, through the system of casting votes, on the nature of the decisions taken by the Government. In a parliamentary system, most decisions are processed by Cabinet ministers, whereas under a presidential form of Government the President acts as the real manager of the state: It is he who takes or makes decisions. Similarly, macro-real manager of the State : it is he who takes or makes decisions. Similarly, Marco-decision-making is more decentralized in a federal form of Government than in unitary form of Government.

You may argue that the decisions being referred to are political decisions. True, but it must be emphasised that political decisions have far-reaching economic implications. After all, the Government is the manger of the economy. The nature of Government ownership, control and regulation of the economic activities of a country provides form and shape to the nature of economic organisations. In a capitalist society, the private sector induced by the profit motile and led by the free market, takes the major economic decisions of investment, production and distribution. In a socialist society, most of the economic decisions are taken by the Government which is glided by the social welfare motive and central planning. In a communist society, economic decisions, including those of consumption, are taken by the state in the interest of the community as a whole. In a mixed economy, the private, public and joint sectors and the like all have some say in the major decisions that influence the functioning of an economy.

All modern economics, whether capitalist, socialized, communist or missed, have certain fundamental economic problems to deal with. In each and every economy, including the so-called “affluent society”, some or many resources are scarce. Consequently, choices concerning the resource use have to be made together by individuals, by business corporations, and by society. It is the social choice and community preferences which give substance to the question of macro-economic decisions. From the standpoint of resources, the basic economic problem of every economy is that of just allocation of resources and subsequent optimum production. Thee are may aspects to this problem : What to produce ? How to produce ? For whom to produce ? When to produce ?

Every economy has to decide on the quality and quantity of the goods and services to be produced. It has to decide on the nature of the technology and technique of production in view of factor endowment. It has to decide on the course and pattern of distribution of goods and services produced. It has to decide on the timing of production. The process of decision-making differs depending on how these problems are solved in different economies. This is what constitutes the functioning of the economy, or the nature of the economic environment. At the risk of over-implication, certain points can be made about the organisation and functioning of modern economics :

i) In most economies, both "free market mechanism" and "Centralised planning" exist in different degrees even today. By "free market mechanism" or "price mechanism", we mean a free play of the market forces of demand and supply to determine an equilibrium solution of the allocation problem. Market mechanism determines commodity prices, factor prices, and income distribution. By "planning", we mean a programme of action based upon consistency and feasibility of attaining a set of targets in view of a set of objectives through a set of instruments. In the present day world around us, planning is combined with free pricing to arrive at macro-economic decisions yielding "the maximum good to the maximum number". Thus, the economy in which a business firm operates today is not an exclusively free economy making an indiscriminate use of prices and the markets. Rather, it is directed by a system of planning, control, regulation and coordination.

ii) In most economies, positive intervention by the Government in day-to-day economic affairs has existed over several decades in the past. Planning is a form of Government intervention. Besides this, the Government can also intervene through a system of controls and regulations. The "welfare state" principle induces the Government to enforce minimum wages, commodity controls, fair trade practices, etc, through legislation. The basic objectives of such economic legislations and policies are : growth, efficiency and equity. It is the intervene role fonder government that has made most business firms socially responsible. However, intervention by the Government is now on the decrees. Many economics have relaxed regulations and controls through economic reforms, and are allowing a free play of market forces.

iii) Modern economies age not "closed" and "open"; they are actively engaged in international trade and cooperation. So, the international transmission effect today is stronger than ever before. Though three are disparities in the levels of income and standards of living over space and time, there is a conscious effort to develop the port nations. The maintenance of steady growth and enveloped countries dependent on the acceleration of growth in underdeveloped countries. This idea has given new dimensions to issues like the role of multinational corporations, the ecological balance, the recycling of petrodollars, and the transfer of technology. The technological revolution is making strident moves. In order to keep their dynamism, the economics are determined to develop science and technology, and to balance environment and economy, and this is going to act as a unifying force for the world economic order.

These facts define the environment and set the constraints within which modern business firms must operate. The managements cannot overlook the environment, whether market or non-market. No management can ignore the functioning of markets, the objectives of national planning, the polices of the Government or their social responsibilities, or the rate, pattern and structure of economic changes, or the forms of international cooperation. Progressive managements must keep themselves continuously informed about the magnitude and direction of changes in the national as well as international economic environment. Of course, both economic and non-economic environment have an important bearing on managerial decisions.

Activity 4

List some of the basic observations concerning the nature and functioning of modern economics in general.

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2. ……………………………………………………………………………………………

3. ……………………………………………………………………………………………

Activity 5

Read the latest World Development Report of the World Bank. It is not accessible; you may fall back on your general knowledge. Write down the firsthand information available to you on.

World Economy	**Indian Economy**

Note that you are required to take stock of the latest developments i.e., the current situation.

Let us now move to more specific issues. When you attempt to analyse the economic environment of business in any country, first of all, you have to identify the critical elements of that environment.

1.5 CRITICAL ELEMENTS

In what follows, we intend to identify and describe a few critical elements of the economic environment. These critical elements are relevant from the standpoint of both corporate business management and national economic management in India.

The critical elements of macro-economic environment are :

- economic system
- nature of the economy
- anatomy of the economy
- functioning of the economy
- economic planning and programmes
- economic policy statements and proposals
- economic controls and regulations
- economic legislations
- economic trends and structure, and
- economic problems and prospects

These critical elements may not always be mutually exclusive. But you may treat them separately for analytical purposes.

An economic system defines the institutional framework of the environment. The ownership control and management of enterprises reveals the nature of the economic system. The role and responsibility of the private sector, public sector, joint sector, etc. throw light on the philosophy and practice of an economic system – capitalist, socialist or missed. The mixed economic system operates through a combination of planning and pricing.

The level of economic development and the structure of the economy defiant he physical framework of the environment. The level and composition of per capita income indicate the level of growth and development. Available natural resources, human resources and material resources of a country set a limit to its factor endowment which determines its production. The occupational distribution of the labour force, the structure of the national output, the composition and pattern of foreign trade, the structure of savings investment and capital formation, the pattern of income distribution (interpersonal and inter-regional), and the degree of urbanization – all thee bring out the significance of the agriculture, industry, and service sectors in the national economy.

The structure of the national economy can also be disused in terms of its physical anatomy. The national economy is, after all, a combination of the household sector, the corporate business sector, the Government administration, the capital market, and the foreign sector. This is suggested by the national income and the social accounting approach. The order and strength of each of these sectors, therefore, also throws light on our understanding of the macro-economic environment.

If you can describe the economic environment with reference to the terms discussed above, you may now attempt an explanation of its functioning. You will discover that money is the life and blood of business activity and of the economic system. The flows of consumption, investment, saving, income, employment and output are all affected by transactions of money. Monetary transactions affect the price level, thereby influencing the real value of al macro-economic variables. Significant developments have taken place in macro-economics to define the role of money. The essential question is : Does money matter ?

There are different answers to this question: 1) Money does not matter at all (Classical); (2) Money matters least (Keynesian); and (3) Money matters most (monetarist). The theoretical debate is quite interesting. But you have to examine its empirical relevance in the economic environment of a country like India. This will provide you with a further insight into the role of centralised planning in the present context, administered price system as well as free market pricing, and central banking.

Economic planning is supposed to give a direction to the changes in the economic environment,. Most countries function today on the basis of planning. Either it is planning by direction – typical of a socialist economy, or it is planning by incentives, i.e., democratic planning typical of a mixed economy, or it is indicative planning typical of the French economy. It is through the system of a perspective planning, five year planning and annual planning that the economies try to overcome their environmental constraints and optimize their achievements over a period to time.

Planning is a programme of action, it is not a guarantee in itself. The formulation of plans and programmes must, therefore, be flowed by proper implementation. This calls for economic policy statements and legislations. Apart from having general policy statements affecting industry and agriculture, the Government often formulates and executes fiscal-cum-budgetary policies. The central bank will work through the instruments of money and credit policies, exchange rate policies, etc. Some sort of physical policies of controls and regulations may also be needed. Price control, trade control and exchange control are all moves in the same direction. Sometimes legislations and enactments become necessary for effective implementation of all these policy statements are proposal. The national economic environment of business is determined by the existing macro-economic policy framework.

These policies, planning and pricing together make the economy function effectively. The functioning of a economy is reflected in short-period fluctuations and long-term trends in macro-economic variables like income, money supply, prices, production, employment, balance of trade and payments, foreign exchange earnings, etc. These trends decide the course of the prevailing economic environment. Some of these economic trends may define the nature and dimension of various macro-economic problems like inflation, unemployment, recession and the like. The problems have to be analysed with the objective of making the national economic management efficient. Economic problems and economic prospects in the environment throw challenges to the corporate business management as well as national economic management.

Activity 6

Somebody picked up at random the following headlines from newspapers and magazines published in India. Identify each one of them and place it under the broad categories of critical elements of the economic environment.

Headlines: "Finance Minister announces drought relief measures"
"MODVAT being reviewed"
"20-point Economic Programme"
"Bonus Ordinance"
"Wholesale Price Index still rising"
"FERA Amnesty Scheme"
"Non-resident Indians' investment incentives"
"Power in the private sector"
"Liquidation of sick units within public sector"
"Public sector units to flat bonds"
"More autonomy for the RBI"

"Zen-base budgeting introduced by the Government"
"More items of import under OGL"

“Industrial relations climate better”

“A mid-term review of the 8^{th} Plan by the end of 1992”
“Pay Commission Report released”
“Trade unions on war path”

“Department of Environment for Ecological Balance”

Economic System

Economic Planning and Policies
Economic controls and Regulations
Economic Legislations
Economic Trends and Structures
Economic Anatomy

1.6 INDIAN ECONOMIC ENVRIONMENT

Now, you may be anxious to evaluate the Indian economic environment in terms of the conceptual framework just suggested. You may note that the national economic environment of a country can be described and analysed in terms of its (a) data environment, and (b) system environment. In subsequent units you will be exposed to the details of the Indian economy’s data environment, i.e., the physical trends and structural co-efficient. The system environment of the Indian economy will also be dealt with in details, in terms of various policy statements, planning techniques, organisation and structure of the capital market, role and responsibility of the private and public sector, etc. The system environment encompasses the entire institutional framework of the economy. An overview of this system environment is presented in this section. For the time being, you should be more interested in the evaluation rather than evolution of the present Indian economic system.

You might have come across the statement that India's is a mixed economy. In fact, Indian has a very complex mixed economic system. Let us elaborate this further.

Firstly, a simple mixed economic system is characterized by the existence of the private and public sectors. India has a multiplicity of sectors: private and public sectors. India has a multiplicity of sectors: (dominant undertakings, foreign companies, etc.), public, joint, co-operative, workers' sectors and also "tiny sector". We hear of different sectors in different areas of the Indian economy: big sector, small sector, heavy sector, light sector, licensed sector, deli censed sector, national sector, core sector, reserved sector, etc. India is a complex vector of sectors.

Secondly, a simple mixed economy is characterized by complementarily between central planning and pricing. India has a multiplicity of mechanisms at work: five-year plans, annual plans during plan holidays, pointed economic reform and reconstruction programmes during and after plan vacations, ideas of rolling plans; an elaborate system of controls and regulatory measures, attempts towards streamlining and simplification of procedures, private traders and public distributors for the same product and hence a system of dual prices, ceiling prices, floor prices, subsidized prices, statutory prices, retention prices, procurement prices, levy prices, and free market prices; concretionary monetary policies and expansionary fiscal policies, etc. In India there is a complex system of liberal rules, strict regulations, control mechanisms, planning and a host of price regulations (which of course are being gradually relaxed).

Finally, a simple mixed economy is expected to reach a target level of social welfare, and for this task, the profit policies are to be designed according to a social purpose. The social welfare function in India is defined by the multiplicity of objectives which are sometimes conflicting in nature. For example, in terms of our five-year plans, India is aiming at efficiency, justice and stability. Productive efficiency in a static sense refers to the efficiency-allocation of the given resources. Productive efficiency in its dynamic sense refers to economic growth. This fruits of economic growth have to be distributed.

Fairly among the masses; social justices is to be so attained so as not to endanger stability of prices, incomes, balance of payments, etc. The Indian plans have always emphasized objectives like full employment of labour, full capacity utilization of plant and equipment, and self-sufficiency. In the long run, these objectives may be compatible with each other, but operationally these objectives come in conflict with each other. For example, in order to promote a higher rate of growth, heavy industrialization and large investments are undertaken. Such investments increase the flow of money faster than the flow of output. This generates inflationary forces. Thus, price stability comes in conflict with economic growth. Similarly, economic growth comes in conflict with social justice.

A progressive tax system is used as a means to reduce income inequalities, but the same tax policy hampers private incentives to invest and to generate the growth forces thereby. Foreign exchange remittances help the country in overcoming balance of payments difficulties, but they increase the domestic conflict among the objectives which the mixed economy of India hopes to achieve. To top it all, different instrument have been used to attain different target variables – fiscal polices for growth with justice, monetary polices for price stability with growth, price and output controls for price stability with justice. This has led to further confusion.

To sum up, the so-called mixed economic system of India sometimes gives the impression of a mixed-up economic system that is characterized by a multiplicity of sectors, a multiplicity of instruments, a multiplicity of objectives, and a multiplicity of adjustments to resolve the conflict between various sectors, between instruments and between objectives.

The present day mixed economy of India has evolved through a series of policy formulations and legislations. It started with the Industrial Policy Resolution of 1948. This was followed by the Industries (Development and Regulation) Act 1951, the Directive Principles of State Policy 1950, the Industrial Policy Resolution 1956, the Monopolies and Restrictive Trade Practices (MRTP) Act 1969 and its subsequent amendments, the Industrial Licensing Policy, 1970, and its subsequent amendments and the Foreign Exchange Regulation Act (FERA) 1973 and its subsequent amendments. These enactments and policy formulations have been modified or supplemented from time to time by comprehensive five-year plans, the 20-point programme, controls and regulations on prices, output, production, distribution and trade, various nationalization schemes, anti-poverty schemes, and finally the economic reforms initiated in 1991.

During the decade of the 1980s the Indian mixed economy took a decisive direction. It all started with the announcement of the Industrial Policy Statement of 1980. The purpose of this policy was to ensure attainment of socio-economic objectives such as optimum utilization of capacity, maximum production,, employment generation, export promotion, import substitution, consumer protection, correction of regional imbalances through the development of industrially backward areas and "economic federalism" with an equitable spread of investment among large and small units, among urban and rural units, etc. Some important provisions of the 1980 policy were:

- Regularization of excess capacity
- An automatic expansion at the rate of 5% per annum to the maximum of 25% in five years, in all the industries of basic, critical and strategic importance
- Promotion of 100% export-oriented units
- Revival of sick units through a package of modernization measures
- Development of "nucleus plants" (on the lines of District Industries Centres)
- Reorientation of the public sector, including the development of its managerial cadres.

As a follow-up of the 1980 Statement, the Government announced some further concessions on April 21, 1982. Among these, the important ones were the following:

- The list of "core sector" industries was revised by including five more industries.

  It implied that the FERA companies and large houses would be allowed to set up industries in those areas.
- Industry was allowed 33.3.% capacity over the best production during the previous five years over and above the 25% excess production.
- Large houses and multinationals world be permitted to set up units outside the core sector if the units were predominantly export-oriented, i.e. 60% export in respect of items not reserved and 75% for items reserved for the small-scale sector.

Such liberalization measures were supplemented by relaxation in price and distribution controls, amendments in the provisions of the MRTP Act relating to the definition of "market dominance", exemption from the need to obtain MRTP clearance for production in sectors of "national priority", etc. such measures were specifically designed to assist the expansion of industrial production during 1982, which was designated the Productivity Year.

During 1983-85, the Industrial Policy pursued by the Government of India placed emphasis on modernization and technological upgrdation for better capacity utilization and larger production. For example, in order to promote demand, excise duties were reduced on commercial vehicles, refrigerators, batteries, tyres and tubes. Major concession sin excise and import duties were given for the benefit of the electronics industry with effect from October 1, 1983.

During 1985-87, the Government took a large number of measures to encourage the private sector. Some of these measures which were broadly referred to as “privatization” and “liberalization” included: Inviting private bids for oil drilling by both the Oil and Natural Gas Commission and the Oil India Limited on a contract basis; setting up of tee Mangalore and Karnal refineries in the joint sector; setting up of new power units in the private sector; decision in principle to encourage private funds including foreign capital for setting up container terminals and port development; acceptance of an `air taxi service’ in the private sector; permitting private and co-operative bodies to put up TV terminals, and to run Post Offices; enlisting private enterprises in the field of building roads and bridges; permitting the private sector to manufacture solar cells which were hitherto the monopoly of public undertakings namely, Bharat Heavy Electricals Ltd., and Central Electronics Ltd.; and a decision to reconstitute the Board of Directors for units like Air Indian and Indian Airlines, so as to run them on the principle of professional management by experts drawn from both the private and public sectors.

The New economic Policy

The new economic policy was announced in July 1991 which is of far reaching importance. The new economic policy, among other things, has a baring on: (1) Industrial Licensing, (ii) Foreign Investment and Foreign Technology Agreements, (iii) MRTP regulations, and (iv) Public Sector. Our purpose is to acquaint you with the main ideas or philosophy behind the economic policy. And this we intend to do by taking up all these aspects briefly. (all these aspects will be taken up for further discussion in the appropriate units).

Industrial Licensing; The statement of new economic policy emphasized that the system of industrial approval needed a number of changes to actively encourage and assist Indian entrepreneurs to exploit and meet the emerging domestic and global opportunities and challenges. The bedrock of policy measures must be to let the entrepreneurs make investment decisions on the basis of their own commercial judgments. Government policy and procedures must be geared to assist the entrepreneurs in their efforts by making essential procedures fully transparent, by eliminating delays and removing restraints on capacity creation, while, at the same time, ensuring that overriding national interests are not jeopardized.

The decisions taken in this respect are listed as under:

- Abolition of industrial licensing for all projects except for a short list of industries related to security and strategic concerns, social reasons, hazardous chemicals and overriding environmental reasons and items of elitist consumption. Industries reserved for the small-scale sector would continue to be so reserved.
- Areas where security and strategic concerns predominate will continue to be reserved for the public sector.

- in projects where imported capital goods are required, automatic clearance will be given in certain cases.
- In locations other than cities of more than 10 lakhs (1 million) population, there will be no need for obtaining industrial approvals from the Central government except fro industries subject to compulsory licensing.
- Existing units will be provided a new broad-banding facility to enable them to produce any article without additional investment.
- Exemption from licensing will apply to all cases of substantial expansion of existing units.
- The mandatory convertibility clause will no longer be applicable for term loans from the financial institutional for new projects.

Foreign Investments and Foreign Technology Agreements : Regarding direct foreign investment, the Government announced its decision to grand approval for investment up to 51% foreign equity in high priority industries without any bottlenecks in the progress of approval. This was intended to invite foreign investment in industrial requiring large investment and foreign technology. The list of high priorities industries identified for the purpose include 34 broad areas like metallurgy, electrical equipment, transportation, food processing, and hotel and tourism industry. However, clearance will be given if foreign equity covers the foreign exchange requirements for imported capital goods. Proposals which do not meet the above criteria will continue to need prior clearance. But foreign equity proposals need not necessarily be accompanied by foreign technology agreements. Payment of dividends on foreign equity would be monitored through the Reserve Bank of India so as to ensure that outflows on that account are balanced by export earnings over a period of time.

Direct foreign investment up to 51% foreign equity is allowed for trading companies primarily engaged in export activities to provide access to international markets.

Foreign Institutional Investors (FIIs) have been permitted to enter the Indian capital market and allowed to trade both in the primary and secondary markets, without any restriction on the total volume of investment and lock in period.

With the amendment of the Foreign Exchange Regulation Act in January 192, there were further changes in the policy frame. The limits on the operations of FERA companies in non-priority sectors were removed. These companies were also enabled to take up any trading, commercial and industrial activity, as also acquire any company in India, or acquire shares in any company without prior approval of the Reserve Bank. Their export obligations and commitments stood annulled. Earlier, FERA companies having 74% stake were to commit 74% of turnover to priority sector activity. To retain 51% to 60% stake, such companies were required to commit 60 per cent of turnover to priority or sophisticated technology industries with a minimum10 per cent export commitment, or export commitment of 60 per cent of turnover.

Foreign Technology Agreements :The Policy statement emphasised that there is a great need for promoting an industrial environment where the actualization of technological capability receives priority. Towards that end, governmental interference with commercial technology relationships of Indian entrepreneurs with foreign technology supplies was unnecessary.

As viewed by the Government, in the fast-changing world of technology the relationship between the supplies and users of technology must be a continuous one, whereas governmental interference on a case-to-case basis involved inordinate delays and fostered uncertainty. The Indian entrepreneur had come of age and no longer needed bureaucratic clearances of technology relationships.

Thus, Indian companies will, hereafter, be free negotiate the terms of technology transfer with their foreign counterparts according to their own commercial judgement within the specified parameters. This is expected to induce industry to develop indigenous competence for the efficient absorption of foreign technology, and invest more in R & D due to greater competitive pressure.

Changes in MRTP Regulations : A significant change initiated by the new policy was the removal of the threshold limits of assets in respect of MRTP companies and dominant undertakings. With this decision, prior approval of the Central Government will not be required for the establishment of new undertakings, expansion of undertakings, merger, amalgamation and takeover of companies. Instead, emphasis will be on controlling and regulating monopolistic, restrictive and unfair trade practices as provided under the MRTP Act. At the same time, the MRTP Commission will be empowered and authorised to imitate investigations sue motto or on complaints received from individual consumers or classes of consumers in regard to monopolistic, restrictive and unfair trade practices.

Public Sector Policy : In the context of massive investments made, the policy statement noted two aspects of the performance of public enterprises. The mature enterprises have successfully expanded production, opened up new areas of technology and built up a reserve of technical competence in a number of areas. On the other hand, in many of the enterprises, serious problems have manifested themselves, which are observed in insufficient growth of productivity, poor project management, over-manning, lack of continuous technological upgrdation, and inadequate attention to R & D and human resource development. The consequent low rate of return has inhibited the ability of such enterprises to regenerate themselves in terms of new investment as well as in technology development. Thus, many of the public enterprise have become a burden on rather than on asset to the Government.

The original concept of public sector has undergone considerable dilution. The take-over of sick units from the private sector has resulted in losses of a certain category of public sector units amounting to almost one third of the total losses of Central Government enterprise. A number of enterprises in the consumer goods and services sector do not fit into the original idea of the public sector being at the commanding heights of the economy.

The policy decision in the above context are based on a new approach as follows :

- The portfolio of public sector investments will be reviewed with a view to focus the public sector on strategic, high-tech and essential infrastructure.
- Public enterprises which are chronically sick and which re unlikely to be turned around will be referred to the Board for Industrial and Financial Reconstruction (BIFR), or other similar institutions created for the purpose, for the formulation of revival/rehabilitation schemes. A social security mechanism will be created to protect the interest of workers likely to be affected by such rehabilitation packages.
- In order to raise resources and encourage wider public participation, a part of the Government's shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers.

- Boards of public sector companies would be made more professional and given greater powers.
- There will be a greater thrust on performance improvement through the Memorandum of Understanding (MoU) by which managements would be grated grater autonomy and would beheld accountable. Technical expertise on the part of the Government would be upgraded to make the MoU negotiations and implementation more effective.
- To facilitate a fuller discussion on performance, the MoU signed between the Government and the public enterprises would be placed in Parliament. While focusing on major management issues, this would also help place matters of day-to-day operations of public enterprise in their correct perspective.

In February 1992, the Government of India announced its decision to permit public sector undertakings to float bonds. The move was aimed at mobilizing extra-budgetary resources for the public sector and was applicable to all state enterprises fully owned by the Central government. Guidelines were issued by the Controller of Capital Issues in this connection for floatation of bonds by existing as well as new corporate undertakings including finance corporations. We shall now talk about competition and quality.

Challenge of Global Competition and Quality Standards : Industrial enterprises in India, after years of protection from foreign competition, have been exposed to competitive markets both within and outside since the policy of liberalization was initiated in 1991. With the entry of MNCs and growth of foreign companies, domestic product markets are being increasingly subjected to forces of competition. On the other hand, export promotion is directly linked with the competitiveness of India products in market abroad.

Price and quality are two major factors by which the competitive strength of a company is determined. Except for elitist products, price has been the more important factor determining the sales performance of firms. However, brand images of foreign companies are making a dent in the domestic market with buys becoming more quality conscious. In export markets, although price influences buying decisions to a large extent, the quality of the product is an equally important factor in export marketing.

It is in the above context that the significance of quality standards has been recognised widely in India industries. At the national level quality standards have been developed by the Bureau of Indian Standard (BIS) for a large number of products and components. BIS, at present, manages 16,000 standards developed over the years fro over 14,000 products. The Standards Mark of Certification – the ISI Mark - is granted by the Bureau where the goods conform strictly to the relevant standards set by it. The certification scheme is designed to ensure the quality of goods, particularly those affecting the health and safety of consumers. It also ensures that mass-produced and mass-consumed products conform to the required standards of quality, safety and durability.

Grading and standardization of agricultural commodities is provided for under the Agricultural Produce and Marketing Act 137. For fixing grade standards there are sixteen regional laboratories besides the Central Agmark Laboratory at Nagpur. Among others, commodities graded included vegetable oil, butter eggs, wheat flour, rice, cotton, potatoes, gur, maize, honey and ground spices. The graded products are stamped with the seal of the Agricultural Marketing Department – AGMARK, Compulsory grading is done after export in the case of 34 commodities.

Of late, a great deal of importance has come to be attached to quality Systems Standards

– the ISO 9000 series of Standards – which the International Organization for Standardization (IS) brought out in 1987, and were published in India by the BIAS in 1988 as IS 14000 series of standards. These standards are based on Quality Management Systems, re provide an effective means of ensuring that the producer is consistently capable of delivering goods of the desired quality at optimum cost. The emphasis is to provide for quality not only in manufacturing but in every other activity of the organisation from marketing to delivery and feeback from after sales services. The BIS launched the Quality Systems Certification Scheme in September 1991 under the provision s of BIS Act, 1986. The operation of the scheme entails initial assessment and subsequent surveillance of the quality systems installed and implemented by the firm for verification of this conformity to the prescribed requirements. The operation of the scheme is in harmony with international practices. It meet the criteria enunciated by ISO, the European Community and its accreditation from Ms. Raad Voor de certificates, Netherlands.

However, ISO 9000 certification by itself cannot yield results unless people on the shop floor and in Board rooms are continuously motivated to keep their performance levels high. The demand for certification of quality systems from a wide cross-section of industry is increasing, primarily from export-oriented units. A number of certification bodies – companies catering to quality management systems certification – have come up and are reported to be buying with each other to offer their services. In the absence of a national quality accreditation body, it is feared that quality systems certify action by different agencies may be lacking in creditability.

1.7 ECONOMIC ENVIRONMENT AND BUSINESS MANAGEMENT

If you have undertaken Activity 6 seriously, you would realise that thee is a lot of overlapping, i.e., one item may fall under different heads. This suggests a difficulty in the classification of environmental variables. At the same time, it points towards interaction among environmental factors.

Let us now examine the iteration between Economic Environment and Business Management.

The business environment influences business managements. The critical elements of the business environment often interact with the critical elements of business management. The critical elements of business management are : planning, direction, organisation, control or coordination, leading and motivation and evaluation. Management all levels, top, middle as well as supervisory, is concerned with these critical elements to certain degree. Similarly, these very critical elements are the concerns of the movement that specialties in different functions such as production, finance, marketing, purchase, inventory control, personnel, public relations, research and development etc.

Management at all levels of specified functions is influenced by the critical elements of the business environment. For example, when an industry faces business recession, the management may decide to cut down the rate of production or to pile up invention. When the market is being invaded by an increasing number of closely substitutable products, the management may decide to go in for aggressive advertising to face cut-thread competition. When the financial institutions start interfering too much with the day-to-day business operations of a firm, the firm’s management may decide to do away with borrowed capital and depend upon its own resources. When the Government enforces minimum wage legislating and other social security measures for all permanent workers, the management may decide to recruit only casual workers through a labor contractor. Such examples can be multiplied. The point is that the management always studies the environmental then makes/takes a decision accordingly.

The existing business environment may act either as a stimulant or as a constraint for business management. If the prevailing environment is favorable to business growth and prosperity, then the management feels happy and responds positively. Small business owns, for example, are often encouraged to produce more when the government pays them a subsidy. On the other hand, when the prevailing environment is unfavourable, it acts as a disincentive. For example, when the Government tries to impose a high tax rate on corporate profits, many business concerns try to evade tax by under-reporting their profits. It is interesting to note that the same environment may act both as, stimulant and constraint – stimulating for some and constraining for other Reconsider the last example. A high tax rate increases the propensity to evade taxes; it induces the corporate tax payer to restrict their output sales or profits. At the same time, this very situation provides an opportunity to the tax consultant for a thriving business.

For the management, the environment is not limited to the institution of the Government. There are other institutions and forces as well. The management has to take care of the interests of other groups also such as the workers, suppliers and contractors, consumers, shareholders and many others. The workers, organised in trade unions, often ask for higher wages. The salaried middle-level managers, through their associations, may also ask for a particular package of pay and perks. The suppliers, organised in guilds, may not always supply materials as per the specifications father management, and they may seek revised rates or change the quality and schedules of delivery. The shareholders may ask for higher dividends or may like to have a greater say in management. The consumer cooperative may seek lower prices and better quality for the products they buy. All in all, the top management has to balance the interest of all the stakeholders – Government, trade unions, manufactures' association, financial institutions, consumer cooperatives and so on. Very often, the management's own economic aspirations may come in conflict with those of other groups. If the management can easily resolve thee conflicts, it get the better of the environment. And if the management accentuates thee conflicts, it becomes

the city of the environment. The management may dictate or be dictated to by the negative/positive foresee the environment.
A good amount of managerial skills is required in adjusting to the environment. The managers must have a thorough knowledge and understanding of the immediate business environment. With experience and maturity, the alert managers acquire the skill to deal with the environment. When an environment repents itself, experienced managers effectively display their capability to take care of it. When the changing dimensions of the environment establish a sudden departure from past trends and tendencies, the managers are called upon to demonstrate their capability to deal with the situation of risk and uncertainty. The environment, thus, poses a challenge to the management. Managerial efficiency and/or effectiveness is a measure of adaptability to the existing business environment.

Environmental scanning, thus, becomes an important step towards corporate planning and business policy decisions. Corporate mangos analyse the Strengths (S), Weakness (W), Opportunities (O) and Threats (T) that exist for their organisation in the context do its environment. The SWOT analysis precedes the making/taking of strategic and tactical decisions by the management.

Irrespective of the factor whether it is office management, factory management, farm management, hospital management bank management or any other management, business management everywhere is determined by, and determines, the business environment. We have so far treated a firm bandits management as a dependent variable, the explanatory variable being the environment. Let us now consider the opposite situation. The totality of business behaviour of different corporate entities may also determine the form and content of the environment. If the managements of different public enterprises ask for more autonomy, there emerges as possibility towards a laissez faire business environment. Or suppose management labour relations deteriorate day-by-day first in one firm, then in other firms, then in one industry, then in different industries because of some sort of demonstration effect, then the national economic environment sooner or later will be affected by such unhealthy industrial relines. Another example is that the preparation of the balance-sheets of a growing number of companies is directed by considerations of accounting convenience, rather than accounting conventions. A study of such balance-sheets may present a distorted picture of the national investment climate. With the help of these examples, you may argue that the behaviour patterns of individual firms and their respective managements together determine the macro-level environment of business and industry.

The environment and management thus influence each other. The existing environment influences corporate level planning, business strategy and business tactics; it also affects the size, structure, location integration and growth of business. The management's success or failure is determined by its adjustment to favourable/adverse environmental factors. The nature of such realisation, its frequency and duration induces corporate managers to cultrate some standards of business philosophy, business ethics and business practices. Simultaneously, Government mangers, the labour managers and the like also start adjusting to the changing organisation-culture. This yields a new business environment. And so the process continues. It is thus, a never-needing process of interactions : Environment - > Management -> Environment ->. It is like a biological organism which keeps both the environment and the management continuously responsive to each other.

Activity 7

Think about your own organisation or any other. You may now attempt a SOT analysis of its business environment. Do name the organisation and the industry it belongs to before you start.

Name :

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Strengths :

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Weaknesses :

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Opportunities :

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Threats :

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Let us now turn our attention to interaction between the economic environment and Business Management. You may also like to consider the interaction between the economic and non-economic environment. B. M. Richman and M. R. Copan, in their book International Management and Economic Development, have, in fact, developed the conceit of Interaction Matrix to stress the significance of this or other forms of inter-dependence among environmental variables.

1.8 ECONOMIC AND NON-ECONOMIC ENVIRONMENT: THE INTERACTION MATRIX

The economic environment of business exercise a strong influence on the non-economic environment of business just as the non-economic environment influences the economic environment. The economic environment is, thus, both exogenous and indigenous, it determines as well as it is determined by the non-economic environment. Let us consider a few specific interactions.

The social environment affects and gets affected by the economic environment of business.

Social attitudes towards business and management determine how many people get attracted to private business as an activity and to management as a career. If business gets social sanction as a respectable profession, the occupational structure of a country will reflect a sizable category of professional mangers. On the other hand, if more and roe of the active labour force joins professional management, the social attitude towards business and its management also changes.

Let us take another example : Social movements largely determine the economic system. If the workers cultivate an attitude of confrontation, rather than cooperation, with management, a repressive economic system may be needed to cope with industrial disorder. On the other hand, if the attainment of rapid economic growth is the target, the management must bring about a labour productivity revolution and the wages may be base don productivity of labour rather than profitability of business. To operate on productivity-based wages is cooperate on the system of incentives and positive attitudes of labour. The attainment of a specific economic objectives is, thus, conditioned by a specific social attitude and discipline.

The educational cultural environment and the economic environment of business are also interdependent. The state of economic development acts as a decisive factor in the choice of a system of education. For example, only a relatively high-income country can afford to impart costly higher education in science and technology. The system of education, on the other hand, may be responsible for a given economic environment. For example, the emphasis on education in the arts and a lack of vocational course may be held responsible for the economic problem of unemployment in many countries. At the corporate level, the interdependence between educational and economic environmental factor may at times take the form of a vicious circle. For example, a business concern whitlow profits may not find resources of finance management training or executive development program. As a result, there may be a shortage of highly qualified and trained management personnel. Thus, lack of trained competent managers may lead to business inefficiency.

The politico-legal environment and economic environment of business are also interlocked to such an extent that we sometimes think of political economy business. In a situation of political stability, business enterprises happen to be forthcoming and businessmen are willing to take more economic risk. But if there is political instability, business uncertainties multiply and, therefore, entrepreneurs may not like to take up new business ventures. The state of business in Punjab during the period of terrorism is a recent example. Similarly, the ideology of the ruling party influxes the economic system. The ruling party which believes in using socialism as a strategy and nationalization of enterprises as a tactic to strengthen the economy may not be favourably viewed by the private business sector. On the other hand, sometimes a series of political legislations may be necessary to cope with the economic environment. To fight economic and industrial recession, the strategy of streamlining the administration and simplifying the procedure my be adopted. In fact, different legislations of the Government (like MRTP Act, FERA, and Urban Land Ceiling Act) are often politico-economic in character. This is borne out by Ana analysis of the content and intent of different legislations and political announcements. Also the state of economic environment decides the continuity or discontinuity of a particular political administrating. The state of the political environment, in its turn, decides the pattern of economic legislations.

The historical environment and the economic environment f business are also interdependent. The print (economic) environment of business can be treated as a legacy of its past (historical) environment. Every business has a history, and history always has a lesson to teach. As such, the repent is a reflection of the past, and the repent can also be handled in terms of the experiences of the past. A number of examples may be quoted. The present economic environment of a country is partly determined by the available structure of industry in that country. These industries can be traced back to the colonial pattern of investment in the past. The British empire was interested in the colonies so that it could easily (a) get the raw materials for its industries, and (b) dump the finished manufactured products in the colonial markets. The colonies, thus, supplied the market as well as the raw materials. In other words, the economic environment of business in the newly independent nation-states is the outcome of the colonial infrastructure which those countries had in the past. Similarly, history is a record of events and a storehouse of lessons which can provide guidelines for present economy policy deisms. The achievements of the Five-Year Plans in the past may provide a direction to the formulation and implementation of the current Five-Year Plan of an economy. An the present performance of a plan will decide the future course of planning. It suggests that the environments factors are interrelated on the time scale too.

Finally, we come to the interaction between the physical environment of a country and the economic environmental business in that country. A number of legislations have been enacted in many countries to conserver natural resources and to preserve natural the physical environment. These environment allegislatins may impose a constraint on the expansion of a given business concern like a factory. Thus environmental considerations limit the expansion activities of a business firm. On the other hand, the size of a plant, the scale of output, the organisation of firms, the structure and action of industries may lie at the root of either environmental improvement or environmental delay. Thus, the social responsibility of business today means taking care of the environmental impact of various economic and technological activities. To the extent this social responsibility is not discharged, laws rating to business and industry will increasingly turn out to be laws relating to the physical environment of business. From the standpoint, one may feel that in that in addition to the existing functional Ares of management (prod finance, personnel and marketing), we are soon going to have a few area of environment. The point remains that the physical environment as a factor is becoming so significant day by day that it may be treated as a critical element within the economic environment of business.

In the foregoing pages, we have discussed how the economic environment in general interacts with non-economic environmental factors. If you think a little more, you will discover that individually each critical element of the economic environment (namely, economic system, economic structure, functioning of the economy through sectors, economic polices, programmes and controls) interacts with each critical element of the non-economic environment (namely, sociological, political, historical and physical) and their respective sub-elements. We can conceptualise this interdependence or interlocking of various environmental factors in terms of an Interaction Matrix. For example, in Interaction Matrix below we have listed the critical elements of the non-economic environment along the rows and the critical elements of the economic environment along the columns thus yielding a sever by five matrix. When a given element of the economic environment influences a given element of the non-economic environment, you draw a short line vertically, and when an element of the non-economic environment influences a given element of the economic environment, you draw a short line horizontally. Thus in case of interdependence among the environmental elements, you end up with a plus sign which suggests a two-way interaction. The Interaction Matrix serves as ready-reference for understanding environmental relations and relations.

Interaction Matrix

Economic Environment Non-Economic Environment	**Economic System**	**Economic Structure (Anaomy)**	**Functioning of the Economy Via sectors**	**Economic Planning**	**Economic Programmers (short-term**	**Economic Control & Regulations**	**Economic Growth & Development**
(1) Sociological	+	+	+	+	+	+	+
(2) Educational – cultural	+	+	+	+	+	+	+
(3) Political-	+	+	+	+	+	+	+

legal							
(4) Historical	+	+	+	+	+	+	+
(5) Physical-Geographical	+	+	+	+	+	+	+

Activity 8

Treat the preceding Interaction Matrix as a model and figure out a few more Interaction Matrices. You should try to inter-relate the environmental variables classified on various criteria such as space, time, factors and forces. Corresponding to each element in a given matrix, think of a real specific example from the Indian business world.

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1.9 SUMMARY

The environment is a complex phenomenon. The term environment consists of several subsets, e.g., economic environment, socio-cultural environment, politico-legal environment, technological environment, etc. It thus represents the totality of all kinds of environments which have an impact on business. To a large extent, the environment is external to the firm, Business firms in general have little influence on external forces. Depending upon the nature and composition of several subsets of the environments, the business environment varies from country to country, and may even vary in the same country from one point of time to another. A number of problems are involved in the identification, description, explanation and prediction of environmental factors. The environmental factors are dynamic. It is difficult to conceptualize and/or quantify the proportion of change as well as the direction of change in environmental factors.

Some basic propositions about business are : it is an economic activity; the business firm is an economic unit; and business decision making is an economic process.

The environment may be classified (for convenience of analysis) based on different criteria such as:

Space – Local, regional, national and international environment.

Time – Past, present and future environment.

Forces – Market ad non-market environment

Factors – Economic and non-economic environment

The environmental factors can be treated as exogenous as well as endogenous. The factors are inter-locked to such an extent that you may like to make use of the concept of Interaction Matrix to illustrate their interdependence.

The environment consist of all economic institutions, the structure of the economic system, market forces, Government's economic polices and plans. All modern economies have certain fundamental economic problems to deal with. Most of the countries of the world have mixed economies. There is a tendency towards the marketisation of economic institutions and opening up of economies.

The critical elements of any economy are : the nature of the economic system, the structure of the economy; mode of functioning of the economy, economic planning and programmes, policy statements, controls and regulations, economic legislations, economic trends and structures, current economic problems and prospects. The national economic environment under which business operates may act either as a positive stimulant or as a negative constraint for the management, thus affecting business efficiency.

After independence, India embarked upon a system of mixed economy based on the concept of central planning with socialistic bias. With economic reforms initiated in 1991 the economy is gradually being opened up in order to integrate it with the economies of the rest of the world. The main purpose of economic liberalization is to attract foreign direct investment and modern technology for speedy economic progress. Several significant changes have been made in the MRTP Act, public sector policy, industrial licensing, trade policies, etc., to bring them in tune with the new realities.

Since the environment and the economic institutional framework affect business organisations, it is imperative on the part of the management to scan the environment before taking any decisions. The success of any business enterprise in a large measure, would depend upon the proper understanding of the business environment.

A device called Interaction Matrix can be helpful in understanding the relationship between two sets of variables, e.g., economic and non economic factors.

1.10 KEY WORDS

Environment: The totality of all factors or forces affecting business and external to and often beyond the control or influence of individual business enterprises. The environment comprise several subsets, e.g., economic environment, socio-cultural environment, politico-legal environment, technigological environment, etc.

Economic Activity : Any activity undertaken with economic or financial motive or consideration. In the business context, it is the task of adjusting the means/resources to the needs/targets.

Decision-Making : Making a choice from a set of alternative courses of action.

Economic Environment : A subset of the environment consisting of economic institutions, frameworks, nature and structure elf the economic system, market forces, economic fiscal and monetary policies, planning and programmers of the Government, etc.

Interactive Matrix : A two-dimensional tabular device shooing the relationship or interdependence between two sets of factors or variables, e.g., economic and non-economic factors, economic and social factors, etc.

1.11 FURTHER READING

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Ghosh, Alak, 1997, Indian Economy : Its nature and Problems, The New Book Stall, Calcutta.

1.12 SELF-ASSESSMENT QUESTIONS

1. How would you classify business environment ? What could be some criteria? Explain.
2. Examine the basic proposition about business?
3. Discuss some important points about how modern economies are organized and function.
4. "All modern economies have certain fundamental economic problems to deal with". Examine and illustrate the statement.
5. Explain the critical elements of economic environment with examples drawn from Indian experience.
6. Briefly review the development of the economic environment in India. What to you think were the landmark development?
7. Discuss the salient feature soft new economic policy of 1991 and the initiatives taken by the Government for economic restructuring.
8. How does the economic environment impinge upon business management? explain with suitable examples.
9. How are economic and non-economic environment interrelated? Explain.