Thiruthangal Nadar College

Knowledge is Power

THIRUTHANGAL NADAR COLLEGE

(Belongs to the Chennaivazh Thiruthangal Hindu Nadar Uravinmurai Dharma Fund)

Selavayal, Chennai-51.

A Self-Financing Co-educational College of Arts & Science

Affiliated to the University of Madras

Accredited with 'B' Grade by NAAC

An ISO 9001: 2015 Certified Institution

NAME OF THE DEPARMENT : DEPARTMENT OF MANAGEMENT SCIENCES

SUBJECT : BUSINESS ENVIRONMENT

TOPIC : ECONOMIC ENVIRONMENT

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ECONOMIC ENVIRONMENT

Introduction –

Various environmental factors such as economic environment, socio-cultural environment, political, technological demographic and international, affect the business and its working. Out of these factors economic environment is the most important factor.

Meaning of Economic Environment –

Those economic factors which have their affect on the working of the business is known as economic environment. It includes system, policies and nature of an economy, trade cycles, economic resources, level of income, distribution of income and wealth etc. Economic environment is very dynamic and complex in nature. It does not remain the same. It keeps on changing from time to time with the changes in an economy like changes in an economy like change in Govt. polices, political situations.

Elements of Economic Environment – *General economic conditions affect business. It has mainly five main components –*

1) Economic conditions
2) Economic system
3) Economic policies
4) International economic environment
5) Economic legislations

1) Economic conditions –

General economic conditions affect business. Economic pass through periods of boom and recession. A boom is characterized by high level of output, employment and rising demand and prices. If a region depends to a significant extent on any particular industry or sector, business in that region would be significantly affected by fortune of that industry. The economic and business prospects in major oil exporting countries depend to a very great extent on the crude oil prices.

A particular economic condition may be widespread – international or national – or may be confired to a region. AS the US economy is highly integraed globally the economic conditions in the US can have repercussions in other economies. Exports and imports of a country are generally affected by a numbert of domestic and international economic conditions. If economic policies of a business unit are largely affected by the economic conditions of an economy, Any improvement in the economic conditions such as standard of living, purchasing power of public, demand and supply distribution of income etc. largely affects the size of the market.

The external factors are –

- The rate of growth of the economies of the importing countries
- The rate of growth of the world trade
- The rate of change in the price level I the importing country

2) Economic system

3) Economic policies

4) International economic environment

5) Economic legislations

Global/International Economic Environment -

The role of international economic environment is increasing day by day. If any business enterprise is involved in foreign trade, then it is influenced by not only its own country economic environment but also the economic environment of the country from/to which it is importing or exporting goods. There are various rules and guideless for these trades which are issued by many organizations like work bank, WTO, United Nations etc.

Economic Legislations- Besides the above policies, governments of different countries frame various legislations which regulates and control the business.

Nature of the economy – The general level of development of the economy has a lot of implications for business. It has a significant bearing on the nature and size demand, government policies affecting business etc. A widely used method of classification of the economies is on the basis of the per capita income. Countries are broadly divided as low income, middle income middle and high income economies.

Economic Environment in India –

In order to solve economic problems of our country, the government took several steps including control by the state of certain industries, central planning and reduced importance of the private sector. The main objectives of India's development plans were:

1) Initiate rapid economic growth to raise the standard of living, reduce unemployment and poverty.
2) Become self-reliant and set up a strong industrial base with emphasis on heavy and basic industries.
3) Reduce inequalities of income and wealth.
4) Adopt a socialist pattern of development – based on equality and prevent exploitation of man by man.

As a part of economic reforms, the government of India announced a new industrial policy in July 1991. **The broad features of this policy were as follows –**

1) The government reduced the number of industries under compulsory licensing to six.

2) Disinvestment was carried out in case of many public sector industrial enterprises

3) Policy towards foreign capital was liberalized. The share of foreign equity participation was increased and in many activities 100 per cent Foreign Direct Investment (FDI) was permitted.

4) Automatic permission was now granted for technology agreements with foreign companies.

5) Foreign Investment Promotion Board (FIPB) was set up to promote and channelize foreign investment in India.

Liberalization:

1. The economic reforms that were introduced were aimed at liberalizing the Indian business and industry from all unnecessary controls and restrictions.
2. They indicate the end of the license-quota raj.
3. Liberalization of the Indian industry has taken place with respect to:

- Abolishing licensing requirement in most of the industries except a short list,
- Freedom in deciding the scale of business activities i.e., no restrictions on expansion or contraction of business activities,
- Removal of restrictions on the movement of goods and services,
- Freedom in fixing the prices of goods services,
- Reduction in tax rates and lifting of unnecessary controls over the economy.
- Simplifying procedures for imports and experts, and
- Making it easier to attract foreign capital and technology to India.

Privatization –

1.The new set of economic reforms aimed at giving greater role to the private sector in the nation building process and a reduced role to the public sector.

2.To achieve this, the government redefind the role of the public sector in the new industrial policy of 1991.

3. The purpose of the sale according to the government, was mainly to improve financial discipline and facilitate modernization.

4.It was also observe that private capital and managerial capabilities could be effectively utilized to improve the performance of the PSUs.

5. The government has also made attempts to improve the efficiency of PSUs by giving them autonomy in taking managerial decisions.

Globalization –

1. Globalization are the outcome of the policies of liberalization and privatization.
2. Globalization is generally understood to mean integration of the economy of the country with the world economy, it is complex phenomenon.
3. It is an outcome of the set of various policies that are aimed at transforming the world towards greater interdependence and integration.
4. It involves creation of networks and activities transcending economic, social and geographical boundaries.
5. Globalization involves an increased level of interaction and interdependence among the various nations of the global economy.
6. Physical geographical gap or political boundaries no longer remain barriers for a business enterprise to serve a customer in a distant geographical market.

Impact of Government Policy Changes on Business and Industry –

1) **Increasing competition – As a result of changes in the rules of industrial licensing and entry of foreign firms, competition for Indian firms has increased especially in service industries like telecommunication, airlines, banking, insurance, etc. which were earlier in the public sector.**

2) **More demanding customers – Customers today have become more demanding because they are well-informed. Increased competition in the market gives the customers wider choice in purchasing better quality of goods and services.**

3) **Rapidly changing technological environment – Increased competition forces the firms to develop new ways to survive and grow in the market. New technologies make it possible to improve machines, process, products and services. The rapidly changing technological environment creates tough challenges before smaller firms**

4) **Necessity for change:**

In a regulated environment of pre-1991 era, the firms could have relatively stable policies and practices. After 1991, the market, forces have become turbulent as a result of which the enterprise have to continuously modify their operations.

5) **Threat from MNC –**

Massive entry of multi nationals in Indian marker constitutes new challenges. The Indian subsidiaries of multi-nationals gained strategic advantage. Many of these companies could get limited support in technology from their foreign partners due to restrictions in ownerships. Once these restrictions have been limited to reasonable levels, there is increased technology transfer from the foreign partners.

Introduction:

Technology is knowledge of methods to perform certain tasks or solve problems pertaining to products or services. The information on product design, production, techniques quality assurance measures, human resource development, and management system from the basic element of technology continuum. J.K. Galbraith "Technology is a systematic application of scientific or other organized knowledge to particular task.

Features of Technology: **Technology transfer covers developing and marketing of technology. Selection of technology. Mechanism and process. Economic, political and legal aspects, govt. policies monitoring effectiveness of transfer, design capability, manufacturing processes etc. Following are the features of Technology**

Levels of Technology Transfer

Operational Level

Business Level

Adaptive level

Innovative level

Phases:

1. Choice of technology
2. Selection of Mechanism
3. Financing
4. Negotiation of contracts
5. Design and Adaptation
6. Construction
7. Training
8. operation of plant and machinery
9. Domestic diffusion

Technology Selection:

Generation of New Technology ideas → screening of the New Technology ideas

Business Analysis ← Concept development and testing of the ideas

Selection of the Technology → Commercialization of the technology.

Impact of Technological Environment on Society

1. High Expectation of consumers
2. System Complexity
3. Social change.

Impact of technology on Globalization

Technological advances have tremendously fostered globalization. It has in fact a very important facilitating factor of globalization.

Building human capabilities

1. To live a long healthy life.
2. To acquire knowledge and be creative
3. To enjoy a decent standard of living
4. To participate in the economic and political life of a community.

Sources of Technological Development

- Through high customer needs and expectations.
- Through availability of new substitutes
- Through Competitive dynamies.
- Through social forces
- Through new market demand conditions etc.

Significance of Technological Environment –

It is through the process of innovation/technology that knowledge is converted into wealth. Further, technology is an important factor for the competitiveness of both the service and manufacturing sectors and hence urgent need to put in place a system of innovation. Such a system would involve networking of firms, knowledge-producing institutions, bridging institutions and customers/users in a value addition -creating production chain.

With such a consortium, the technology system would tap into the growing stock of global knowledge, assimilate and adapt it to local needs, and finally create new knowledge and technology. India and its organizations must evolve such systems to improve their competitiveness in a global marketplace. Competitiveness emerges from the strength of knowledge power, which is powered by technology that in turn is powered by capital.

THANK YOU