# Business Environment Notes

## Q.1 What is Mixed Economy?

In a mixed economy there exist a mixture of government control and free enterprise. It can also be defined as a form of economy where the elements of capitalist economy as well as the social economy can be found. Most developed countries of the world have mixed economy. Mixed economy is also known as dual economy. In some areas of a mixed economy the government can even have a monopoly. Typically in mixed economies, the government runs things like postal services, railways and health care services. The influence of the government is considerable even on the industries that are not owned or run by the government, in the form of regulations and taxes. It is very difficult to define the economy of a country as socialist, capitalists or a mixed one. It has been seen lately that the role of government is increasing rapidly after the recent worldwide depression.

In a mixed economy we see the presence of the private economy freedom along with the centralized planning having a common goal of avoiding the problems that are linked with socialism as well as the capitalist system of economy. In the system of a mixed economy, freedom in economic activities is influenced by the licensing policies and regulations of the government. Mixed economy allows the participation of private entrepreneurs in the field of production and in a competitive environment with the objective of making profit. As against some of the features of socialism, mixed economy includes both public and private ownership in production with a view to maximize the welfare of the society.

## Q.2 What is Economic Planning?

Planning is a pervasive function of management and it chalks out a course of action for the enterprise to follow. Planning enables to provide for uncertain future. Planning makes it possible for things to occur which would not otherwise happen and it is mental exercise which requires the use of intellectual facilities. There are two aspects of Indian Planning:

1. Management aspect of Indian Planning
2. Economic aspect of Indian Planning.

In management aspect of Indian planning, we make use of planning for the betterment of business enterprise. Planning is concerned with thinking before doing and deciding in advance what is to be done, how is it to be done, when is it to be done and who is to do it.

According to Theo Haimann, “Planning is deciding in advance what is to be done. When a manager plans, he projects a course of action for the future, attempting to achieve a consistent, coordinated structure of operations aimed at the desired results”.

Planning is universal and every business unit has to plan its economic activity. Planning lays down the means to achieve objectives. Planning is an intellectual process and requires mental exercise. On the basis of facts and figures, planning lays down a course of action to be followed. Planning is always a continuous and perpetual process and if circumstances prevail, changes and modifications are regularly done in the planned course of action on account of changes in environment. Planning must be precise as to its meaning, scope and nature. Finally, in the nature

of planning we can say that it covers the entire enterprise will all its segments and every level of management.

Planning must provide some basic concepts like objectives, policies procedures, programs and budgets. Objectives are basic plans which decide goals or end results of the projected actions of an enterprise, Policies provide guide to action. These are generally statements which guide or channel thinking in decision making of subordinates. Procedures indicate the specific manner in which a certain activity is to be performed. A procedure is thus a standing plan which lays down a sequence of step by step actions that are repeatedly followed. It may be durable like policies, but they are not as flexible as policies are Program lays down the course of action that are executed to obtain established set objectives. Programs are necessary for both repetitive and non-repetitive courses of action. Programs are made of many small plans where each plan contributes to the accomplishment of the overall objectives of the enterprise. Budget is an instrument used by management for planning the future course of business. In other words, budgets are plans containing statements of expected results in numerical terms. Budgets and programs are closely interrelated. Many programs are implemented by means of some budgets; the budgets themselves are very often utilized as the entire program in many business enterprises.

Plans can be divided in a number of ways. A manager prepares various types of plans in order to achieve the objectives of an enterprise. According to the nature and use of planning different plans can be divided into three groups, i.e.

1. Basic plans
2. Standing plans
3. Master plans.

For all types of planning and operations, basic plans are necessary. The entire planning activity is geared into action through the formulation of objectives and strategies. Standing plans serves as a guideline to managerial action. It provides readymade answers to a given situation. Standing plans include policies and procedures which have application only in repetitive action. Master plans indicate the complete course of action along with timing and strategy consideration. There are some types of plans, viz.

(i) Short Range and Long Range Plans
(ii) Financial and Non-Financial Plans
(iii) Formal and Informal Plans

In order to achieve fundamental objectives of the enterprise, a long term plan covering a period of 20 to 25 years are taken. Short range plans are made for guiding the day to day actions of an undertaking. There plans are generally for one year only. Plans dealing with monetary aspects are financial plans and non-financial plans relate to the physical resources of concern. Formal plans are always considered better because they are written whereas informal plans are unwritten and it involves a more thinking on the part of the managers.

## Q.3 **What is Fiscal Policy?**

The word fiscal is derived from the old French Word Fisc, which means the money basket or the treasury. Thus fiscal means pertaining to treasury or government finance. Fiscal policy means the government policy of taxation, expenditure and public debt etc. Fiscal policy may be defined as

‘a policy under which the government uses its expenditure and revenue programmes to produce desirable effect & avoid undesirable effect on national income, production and unemployment. It emphasizes the effect of government expenditure and revenue upon total economy and argues that they should be used deliberately and consciously as a balancing factor to secure economic stabilization. “Gerhard Colm defines fiscal policy as “the conduct of government expenditure, revenues and debt management in such a way as to take fully into account the effect of these operations in the allocation of resources and the flow of funds and thereby their influence on the level of income prices employment and production.”

In the modern government organization the amounts of public expenditures, revenues and public debt are so huge, that they have began to assume a major importance in the national economy. The desired fiscal policy can be pursued by budgetary measures like taxation, expenditure, public debt etc.

The role of fiscal policy in regulating the economy and protecting it from the ills of the market mechanism were recognized very slowly. As discussed in an earlier lesson, governments were wedded to the traditional ideals of sound budgetary policy of avoiding deficits. Such a policy, amongst other things, was causing to problems. One was as Keynes pointed, the fact that an attempt to balance the budget would put it to an unbalance and vice-versa. The second was that through the process of balanced budget multiplier, the budget was adding to the severity of cyclical fluctuations. It was with great difficulty that the appropriateness and usefulness of the fiscal policy in combating the ills of the economy were recognized, especially during the great Depression of 1930s. It was conceded that the government had a primary responsibility of helping the economy towards stabilization.

As mentioned earlier, the role of fiscal policy in promoting economic stability was recognized slowly, and not sufficiently till the Great Depression of 1930s, Actually, as Keynes pointed out, the orthodox sound budgetary policy of avoiding deficits itself contributed towards greater instability and made the task of keeping the budget balanced, all the more difficult. This is fact, generated a “perverse” policy on the part of the authorities, pushing the expenditure and demand in the economy down during a period of depression and pushing them up during a boom.

The development of the concepts of “multiplier”, and accelerator” and the relationship between the macro-variables like investment, Income consumption and savings enabled the economics to visualize more clearly the machines of trade cycles and the role which fiscal policy could play. This gave rise to the principle of compensatory finance and functional finance. It was realized that through fiscal policy, the government could to a great extent, neutralize the destabilizing movements in the economy. The general theoretical farm work was that a depression is caused by a deficiency of effective demand. Fiscal policy should remedy it by increasing public expenditure and by encouraging private expenditure; similarly during a boom period the need is to control the demand which again can be partly done through curtailing public expenditure and party through curbing the private expenditure.

To encourage demand during depression, the authorities should reduce the tax rates or abolish taxes on various items & activities. This would push up profits and reduce the price through a reduction in the cost of supply. Lower prices are expected to increase demand, production and employment, which in turn would bring further increase in demand and so on. A similar action can be taken in the field of custom duties also. Raising import duties would divert domestic demand from imports to home produced goods or abolishing export duties or giving export

subsidies would increase the demand for exports and would contribute towards recovery from depression.

## Q.4 **What is Monitory Policy ?**

Monetary policy refers to the steps taken by the Reserve Bank of India to regulate the cost and supply of money and credit in order to achieve the socio-economic objectives of the economy. Monetary policy influences the supply of money the cost of money or the rate of interest and the availability of money. One of the most important functions of Reserve Bank, is to formulate and administer a monetary policy. Such a policy refers to the use of instruments of credit control by the Reserve Bank so as to regulate the amount of credit creation by the banks. It also aims at varying the cost and availability of credit with a view to influence the level of aggregate demand for goods and services in the economy.

D.C. Rowan has defined Monetary Policy 'discretionary act undertaken by the authorities designed to influence (a) the supply of money (b) cost of money or rate of interest and (c) the availability of money". In India, during the planning period the basic objective of monetary policy has been to meet the requirement of the planned development of the economy. With this broad and basic objective, the monetary policy has been pursued to achieve the following objectives of the economic policy of the government of India.

One of the twin aims of the economic policy is to accelerate the process of economic growth with a view to raise the national income. The Reserve bank, has made the allocation of funds to the various sectors according to the priorities laid down in the plans and requirements of day or day development

The second objective is to control the prices and reduce the inflationary pressures in the economy. The monetary policy of the Reserve Bank during the planning period is appropriately termed as that of "Controlled expansion". Every economy faces two conflicting interests:

(a) Expansion of money supply to finance the process of economic development.
(b) Control of money supply to check inflationary pressure generated in the economy as a result of vast development and non-development expenditure.

Thus, controlled expansion of money supply was essential for growth with reasonable. To achieve the above mentioned objectives of the monetary policy, the Reserve Bank has adopted the following:

(a) Measures for expansion of currency and credit
(b) Measures for controlling of credit.

## Q.5 **What is the Economic Environment of Business?**

Economic Environment refers to all those economic factors, which have a bearing on the functioning of a business. Business depends on the economic environment for all the needed inputs. It also depends on the economic environment to sell the finished goods. Naturally, the dependence of business on the economic environment is total and is not surprising because, as it is rightly said, business is one unit of the total economy.

Economic environment influences the business to a great extent. It refers to all those economic factors which affect the functioning of a business unit. Dependence of business on economic environment is total — i.e. for input and also to sell the finished goods. Trained economists supplying the Macro economic forecast and research are found in major companies in manufacturing, commerce and finance which prove the importance of economic environment in business. The following factors constitute economic environment of business:

(a) Economic system
(b) Economic planning
(c) Industry
(d) Agriculture
(e) Infrastructure
(f) Financial & fiscal sectors
(g) Removal of regional imbalances
(h) Price & distribution controls
(i) Economic reforms
(j) Human resource and
(k) Per capita income and national income

The state became the encourager of savings and also an important investor and the owner of capital. Since the state was to be the primary agent of economic change, it followed that private sector activities had to be strictly regulated and controlled to conform to the objectives of state policy.

The growth strategy also meant, in the early years of planning, a relative neglect of public investments in agriculture. This negligence of agriculture sector was supported by the general view that the increase labour in the developing countries could only be absorbed in the industry, and that during the early stages of industrialization, it was necessary for agriculture to contribute in the establishment of modern industry by offering inexpensive work force. A faster development of industry was the central objective of planning. The above is a thumbnail sketch of the growth strategy followed by the planners in the past four decades.

## Q.6 **What is the impact of Political Environment of Economy?**

The Economic Policies have depended upon the political policies of a political party. in this way political environment of a country has great impact on the business houses. The dominated role of public sector in our country is outcome of ‘socialist pattern of society’ adopted by the Congress Party. In short, important economic policies such as industrial policy, foreign capital policy, fiscal policy and import policy are often political decisions which established the great impact of political & legal environment on the business houses. A stable and dynamic political environment is indispensable for business growth.

The political institutions i.e. legislature, Executive and Judiciary plays important role in economic policies as well as in development of country whereas the legislature is vested with most vital powers like policy making, budget making and executive control. The decisions of the legislature affect each and every activity of business houses. Legislatures have to check that profit earning is not only justified but also whether the activities of business houses are in a manner beneficial to the society. The other important political institution is the ‘Executives of the actual law and policies enforcing agency. What the legislative made in their chamber actually

come in force in the hands of executives. In the way the functions of executive also effects the economic development. Some times the legislature makes some policies but there is conflict between the executives and business houses about implementation. In case of such conflicts, the judiciary, the third important political institution resolves the conflicts. It is the power of the judiciary to settle legal disputes that effect business considerably. It is therefore necessary to discuss about the impact of political and legal environment on the economy.

Depending upon the nature and stage of development of the economy, the behavior of the private sector, the political philosophy, social attitudes, administration system etc. it is a universal phenomenon that state controls economy. In the modern era, two most powerful institutions in the society are 'business' and government which meet on common grounds or otherwise together they determine the public policy both foreign and domestic for a nation. But four corner development of a country is only possible if the government plays significant role in the economy of a country. Normally government plays for important roles in an economy and Government regulation of the economy may be broadly divided into two parts; direct and indirect control. The reservation of industries to small scale, public and cooperative sector, licensing system, import and export regulations, the subsidies for different sectors are some examples of regulatory measurements of the governments.

For the development of economy, state/government will have to assume direct responsibility to build up and strengthen the necessary development of infrastructure i.e. transport, power, finance, marketing and institutions for training and guidance along with other promotional activities.

A well planned economy may lead to a country on the path of development. State especially plays important role in planning economy. How to use resources the achieve the goal within the time frame set etc. are the basic needs for proper development of economy and proper planning is most important tool for the same.

Sometimes to boost-up the economic development government plays the role of entrepreneur. It establishes the business enterprises and bear the risks. Dominating trend of pubic sector is basic ingredient of under developed countries. But recently many governments have resorted to privatization.

## Q.7 **Discuss the social responsibility of corporate towards different interest groups?**

Apart from the corporate responsibility of increasing the wealth of owners (share holders) the social responsibility of corporates is also being acknowledged. The areas in which the corporates world has acknowledge its social responsibility and established programs to deal with them are :

**(i) Responsibility towards environment:**
– Production of safe items
– Using biodegradable packages
– Educating consumers on Product use and disposal.
– Being truthful in advertising, and
– Establishing a procedure for dealing with consumer complaints

**(ii) Responsibility towards employees:**
– Providing fair compensation and Benefits
– Providing safe work environment
– Eliminating discrimination
– Providing opportunities for Personal and Professional development, and
– Having progressive human resource policies.

**(iii) Responsibility towards Agencies:**
– Fulfilling obligation under regulations and statutes of these agencies.
– Co-operating in planning and investigation, and
– Coordinating administrative activities with these agencies.

**(iv). Responsibility towards Community:**
– Progressive economic stability.
– Safeguarding Public Safety
– Protecting the environment, and
– Aiding in the development of Social and Cultural resources of the community through corporate Philanthropy.

**(iv) Responsibility towards media:**
It is also responsibility of the corporate world to be co-operated and truthful about the issues that affect public welfare.

## Q.8 Discuss the social responsibility of business?

The existence of a business totally depends on the society as a business takes so much from the society in which it exists; it becomes the responsibility of business to give some thing back to the society. By serving the society, the economic objectives of a business can be better achieved and the business also finds a motivated and satisfied work force.

Social responsibility is a very vast term and means many things. These include that a private enterprise has a responsibility towards the society that goes beyond the production of goods and services and earning profit. It also means that a corporation has a broader constituency to serve than the stock holders only and its relation with society is not only through the market. It also means that organization serve a wider range of human values than the traditional economic values that dominate the market place. Social responsibility of business means that the business organizations are more than economic institutions and thus they have responsibility to help the society in some of its most pressing needs. The concept of social responsibility received much attention during the 1960's.While the old understanding between business and society was based on the view that economic growth was considered to be the drive for profits by private enterprises. The new understanding is based on the view that single minded pursuit of economic growth can produce some detrimental side effects that imposed social costs on certain segments of society or the society as a whole. The concept of social responsibility is basically and ethical concept and involves the changing notions of human welfare and emphasizes the concern about the social dimensions of business activity that have a direct connection with the quality of life in society. The word responsibility implies that business organizations have some kind of an obligation towards the society in which they operate.

**Reference: https://en.wikipedia.org/wiki/Mixed_economy**