### (b) Political Environment

This includes the political system, the government policies and attitude towards the business community and the unionism. All these aspects have a bearing on the strategies adopted by the business firms. The stability of the government also influences business and related activities to a great extent. It sends a signal of strength, confidence to various interest groups and investors. Further, ideology of the political party also influences the business organisation and its operations. You may be aware that Coca-Cola, a cold drink widely used even now, had to wind up operations in India in late seventies. Again the trade union activities also influence the operation of business enterprises. Most of the labour unions in India are affiliated to various political parties. Strikes, lockouts and labour disputes etc. also adversely affect the business operations. However, with the competitive business environment, trade unions are now showing great maturity and started contributing positively to the success of the business organisation and its operations through workers participation in management.

### (c) Legal Environment

This refers to set of laws, regulations, which influence the business organisations and their operations. Every business organisation has to obey, and work within the framework of the law. The important legislations that concern the business enterprises include:



(i) Companies Act, 1956
(ii) Foreign Exchange Management Act, 1999
(iii) The Factories Act, 1948
(iv) Industrial Disputes Act, 1972
(v) Payment of Gratuity Act, 1972
(vi) Industries (Development and Regulation) Act, 1951
(vii) Prevention of Food Adulteration Act, 1954
(viii) Essential Commodities Act, 2002
(ix) The Standards of Weights and Measures Act, 1956
(x) Monopolies and Restrictive Trade Practices Act, 1969
(xi) Trade Marks Act, 1999
(xii) Bureau of Indian Standards Act, 1986
(xiii) Consumer Protection Act, 1986
(xiv) Environment Protection Act
(xv) Competition Act, 2002

Besides, the above legislations, the following are also form part of the legal environment of business.

(iii) freedom in fixing prices of goods and services;

(iv) simplifying the procedure for imports and exports;

(v) reduction in tax rates; and

(vi) simplified policies to attract foreign capital and technology to India.

Through this liberalisation process, Indian Economy has opened up and started interacting with the world in a big way. This has resulted in easy entry of foreign business organisations in India. This has further resulted in stiff competition and efficiency. Ultimately, liberalisation has helped us in achieving a high growth rate, easy availability of goods at competitive rates, a healthy and flourishing stock market, high foreign exchange reserve, low inflation rate, strong rupee, good industrial relations, etc.

### (B) PRIVATISATION

Privatisation refers to reducing the role of public sector by involving the private sectors in most activities. Due to the policy reforms announced in 1991, the expansion of public sector has literally come to a halt and the private sector registered fast growth in the post-liberalised period. The issues of privatisation include:

(i) reduction in the number of industries reserved for the public sector from 17 to 8 (reduced further to 3 later on) and the introduction of selective competition in the reserved area;

(ii) disinvestment of shares of selected public sector industrial enterprises in order to raise resources and to encourage wider participation of general public and workers in the ownership in business;

(iii) improvement in performance through an MOU system by which managements are to be granted greater autonomy but held accountable for specified results.



In India, as a result of these steps, the post liberalisation phase has witnessed a massive expansion of the private sector business in India. You can have an idea of their expansion from the fact that the total capital employed in top 500 private sector companies rose from Rs. 1,39,806 crores in 1992-93 to Rs. 2, 34, 751 crores in 1994-95 (an expansion of 68% in just two years).

### (C) GLOBALISATION

Globalisation means 'integrating' the economy of a country with the world economy. This implies free flow of goods and services, capital, technology and labour across national boundaries. To achieve these objectives of globalisation, the government has adopted various measures such as reduction in custom duties, removal of quantitative restrictions or quotas on exports and imports, facilitating foreign investment and encouragement of foreign technology. These measures are expected to achieve a higher rate of growth, enlargement of employment potential, and reduction of regional disparities.

## Chapter at a Glance