

# Impact of Business Environment & its Influence on the Operation & functioning of the World, with a special mention to UK's Tesco Super-Market

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**Abstract**— Factors affecting business companies with respect to manufacturing or industrial industry often tend to work with various equipment's, machinery and chemical-producing agents, these factors are called Natural Environment. Federal and State regulations maintain certain rules and limits for businesses to reduce and maintain the likelihood of damage to be caused.

**Index Terms**— Business Environment, United Kingdom, UK's Tesco Super-Market, Super-Market, Fiscal Policy, International Trade.

## 1 INTRODUCTION

**B**USINESS ENVIRONMENT can be defined as a sum or collection of all internal and external factors such as employees, customers needs and expectations, supply and demand, management, clients, suppliers, owners, activities by government, innovation in technology, social trends, market trends, economic changes, etc. These factors affect the function of the company and how a company works directly or indirectly. Sum of these factors influences the companies or business organisations environment and situation.

## 2 HOW RESOURCES ARE ALLOCATED EFFECTIVELY IN AN ECONOMIC SYSTEM.

### 2.1 Resources

Resources are called as factors of production; they are all the things used in producing goods and services.

Resources fall into following four Categories:.

Labour  
Entrepreneurship  
Land  
Capital

Labour are those people who work in the economy.  
Labour can also be seen as individual factor of production.

Entrepreneurs are seen as innovators; they plan new ways to produce new product.  
Benefits of market may mostly accrue to the entrepreneurs themselves.

Land refers to everything on Earth that is in its natural state, or Earth's natural resources.  
Land can come on and off the market, it is represented in accounting as a fixed asset or a capital asset.

Capital assets are a resource that is used to make other goods and services.  
Any good that is used to produce other goods is classified as a capital resource.

### 2.2 Cycle of Factors of Production

The first factor of production is land, this includes any natural resource used to produce goods and services. This includes not just resources, but also anything that comes from the land is a type of raw material used by the firms. Owners also earn income in return of this land, called as rent.

The second factor of production is labour. Labour is the effort that people contribute in the production of goods and services. Labour resources include the work done by any person in the firm. Labourers receive an income known as wages, largest source of income for most people.

The third factor of production is capital. Capital can be the machinery, tools and buildings humans use to produce goods and services or the investment done by the holder. Capital invested is used by the labourers for production. Capital owners also receive income in form of interest.

The fourth factor of production is entrepreneurship. An entrepreneur is a person who combines the other factors of production - land, labour, and capital - to earn a profit. They provide wages in return of the work done. Entrepreneur earns profit from production or service.

A complete cycle can be defined as firm using land on which labourers work for wages and produce goods or services for the entrepreneur on which he can earn profit for the capital invested. The cycle flows again, and the labourers spend their wages to receive goods or services for their livelihood and again those wages are earned by the entrepreneur in the form of profit.

Four factors of production - land, labour, capital, and entrepreneurship they are scarce resources that form the building blocks of the economy.

### 2.3 Types of Economy

System of production, resource allocation and distribution of goods and services within a society or a selected area is called an economic system.

An economic system is the way a nation makes economic choices about how nation will use its resources to produce and distribute goods.

There are basically four types of Economy:

Mixed Economy  
Free Enterprise Economy  
Command Economy  
Transitional Economy

Mixed Economy exhibits characteristics of both socialism and capitalism.

It is mostly a combination of government and private owners, forms ownership for a certain entity.

Here government controls some parts of the economy but not all, however the government is close to the economy.

Example:-

England, USA, India, Canada, etc.

Let us consider India,

In India there is a type of mixed economy.

India has both public as well as private banks.

In airline industry Air India as well as other private aircrafts are allowed for its existence as well as working.

Free enterprise Economy is a pure form of capitalism, no socialism economy.

Decisions about product, prices and services here are left on the market not on the government.

Here businesses are free from government control, no interference of government is seen in such types of economy.

Example:-

Singapore, Australia, Hong Kong, etc.

Let us consider Singapore,

In Singapore there is a type of free enterprise economy.

Singapore imposes no tariffs and has few restrictions on investments.

In private property rights Singapore features least restrictions and supports it openly.

Command Economy is a pure form of socialism, no capitalism economy.

Decisions about product, prices, and services here are left on the government not on the market.

Here businesses are controlled by the government, it is a key feature of communist society.

Example:-

Soviet Union, China, North Korea, Cuba, etc.

Let us consider Cuba,

In Cuba there is a type of free command economy.

Cuba does not have a stock exchange this is a true concept of command economy.

Here there is no industrial unrest as the government controls

wages and also employments.

Transitional Economy changes from centrally planned economy to market economy.

Here businesses are the main to focus, for business development these economies undergo set of structural transformations.

Example:-

Bulgaria, Poland, Hungary, etc.

Let us consider Poland,

Poland is one of the most successful transitional economies.

Poland is now one of the fastest growing economies, since after their transition.

Transition was one of the challenging issues for Poland but from last 10 years Poland is very well handling its economy.

### 3 IMPORTANCE OF FISCAL & MONETARY POLICY

Fiscal and Monetary policies are acts of government that regulates and controls about the money let in within the country for use between customers and sellers, these policies change as per conditions and requirements of the government, these policies mainly influence a nation's economic activity.

Fiscal Policy.:

Government uses fiscal policy when government loans from abroad, it creates lower demand of goods and services. Here government cut off taxes so the organizations can achieve better profits for the capital added.

Monetary Policy.:

A process through which government controls the supply of money within the country is called monetary policy. Benefits come out when government can stabilize prices and target inflation rate or interest rate to ensure trust and stability of the currency.

#### 3.1 Using of Fiscal Policy

Basically, Fiscal Policy states that governments can influence macroeconomic productivity levels by increasing or decreasing tax levels and public spending.

A government thus decides to fuel the economy's engine by decreasing taxation, which gives consumers more spending money, while increasing government spending in the form of buying services from the market.

This excess in supply of money decreases the value of money while pushing up prices, this result in increase in inflation from the reasonable level.

#### 3.2 Using of Monetary Policy

Monetary policy can be referred to as either being expansionary or contractionary. Expansionary policy is when a monetary authority uses its tools to stimulate the economy. Contractionary policy slows the rate of growth in the money supply or even shrinks it.

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It involves management of money supply and interest rate and is the demand side economic policy used by the central government of a country to achieve macroeconomic objectives like inflation, consumption, growth, etc.

When the reserve ratio is raised, the volume of investment, output and employment are adversely affected. In the opposite case, when the reserve ratio is lowered, the reserves of commercial banks are raised, they lend more, and the economic activity is favorably affected.

### 3.3 Super-Market Scenario

#### Fiscal Policy

Demands of the consumer will reduce since VAT and Income Tax are increased it would reduce the demand of the goods that are not a daily need just a want.

Supermarket's will load up less of those goods from suppliers, this may result a lose out on profits for them and will not be able to maintain its profit levels.

#### Monetary Policy

Demands of the consumer will increase since interest rates and other customs are decreased it would increase spending and borrowing activities and purchases at lower costs.

Increasing of money supply may cause inflation and then ultimately resulting in reduce demands, the quantity ordered by the suppliers will lack back and will result to low profits.

In this way by keeping a control on Fiscal and Monetary Policies government pulls out the money from the country and pushes back the money to the country and by such ways the government affects the organizations of the whole country.

### 3.4 Competition Policy & Other Regulatory Mechanisms

The main purpose of the competition policy is to improve the process of competition in the market, make a healthy environment for a competitor to exist with its competition. It makes sure that the ultimate beneficiaries are customers of the company. This is attributed from the fact that main aim of the policy is to improve factors that help in increasing competition between organizations in an open market economy.

The Competition Act 1998 is the current major source of competition law in UK along with the Enterprise Act 2002.

#### Competition Law.:

##### Competition Law(1998).

Competition Law deals with restrictive practices engaged by companies operating within the UK that distort, restrict or prevent competition, other different Acts are used to implement the Law.

Firstly, it is identified whether the firm actually possesses a dominant market position or not, if a firm is found to have a market share in excess of 40% then it is considered a threat to competition.

Exemptions from prohibition are available if the firm can demonstrate that practices attempted are in the interest of the consumer through increasing market efficiencies or advancing

technical progress.

#### Enterprise Act.:

##### Enterprise Act(2002).

The Act had five major competition policy objectives;

Make all competition decisions through independent bodies.

Root out forms of anti-competitive behaviour.

Create a strong deterrent effect.

Redress injured parties in distortions of competition.

Raise the profile of competition policy in the UK.

The act made the Office of Fair Trading formally independent from government, gave it additional powers. Made it possible for searches to be carried out under warrant from this act of business premises involved with potentially prohibit able mergers.

On the deterrence side of the act, a jail term of a maximum of five years for directors was introduced in order to increase deterrence for forming cartels.

### 3.5 UK's Economic Regulators (UKRN-UK's Rrgulators Network)

#### List of UKRN.:

Ofcom

Ofgem

Ofwat

Monitor

Civil Aviation Authority

Followed by others such as Financial Conduct Authority, Payment System Regulators, Office of Rail & Road, Utility - Electric Gas Water, Water Industry Commission, Legal Services Board, etc.

OFCOM stands for Office of Communication.

It is the government-approved regulatory and competition authority for the broadcasting, telecommunications and postal industries of UK.

Ofcom has wide-ranging powers across the television, radio, telecoms and postal sectors. It has a statutory duty to represent the interests of citizens and consumers by promoting competition and protecting the public from harmful or offensive material.

OFGEM stands for Office of Gas and Electricity Markets.

It is the government-approved regulatory and competition authority for the gas and electricity in Britain.

Its primary duty is to protect the interests of consumers, where possible by promoting competition. The Authority's main objective is to protect existing and future consumers' interests in relation to gas conveyed through pipes and electricity conveyed by distribution or transmission systems.

OFWAT stands for Office of Water Services.

It is the body responsible for economic regulation of the privatised water and sewerage industry in England and Wales. Plus, an office of staff which carries out work delegated to them by the board.

Ofwat is primarily responsible for setting limits on the prices

charged for water and sewerage services, taking into account capital investment and expected operational efficiency gains.

The Civil Aviation Authority is the statutory corporation which oversees and regulates all aspects of civil aviation in UK.

The CAA manages all national security vetting for the aviation industry, and manages rulemaking and compliance to deliver proportionate and focussed regulation for UK aviation to ensure the highest standards of security across the civil aviation sector

The UK Government requires that the CAA's costs are met entirely from its charges on those whom it regulates.

### 3.6 Impact on UK's Tesco Super-Market

What is Tesco ?

Tesco is one of the leading Supermarket in UK, it has stores in 12 countries across Asia and Europe.

It is one of the world's largest retailers with holding 476000 colleagues, they serve millions of customers in a week with all of their outlets.

Who are competitors of Tesco ?

In UK's leading market Tesco faces competition with Sainsbury, ASDA, Morrison's, Waitrose, LIDL, ALDI, etc.

What is Competition policy of Tesco ?

The impact of UK's competition policy on Tesco would be to restrict it from monopoly formation, make managers more efficient and effective at work, give consumers improved quality goods at low costs, increase consumer choice products, meet the consumer and shareholder's interests.

The competition policy in the UK economy is currently based on the Competition Act 1998, Enterprise Bill 2002, Office of Fair Trading (OFT) and the Competition Commission (CC) as well as other regulatory mechanisms including the Companies Act 2006.

Other regulatory mechanism and competition policy will have a significant impact on all the activities of Tesco.

What impact does Competition policy have ?

It helps in promoting innovation and efficiency through broadening the choices of the customers.

It helps the customers by allowing them to choose from various competitors available in the market.

These competition policy and other regulatory mechanisms significantly contribute to the competitiveness of the economy as a whole.

## 4 SIGNIFICANCE OF INTERNATIONAL TRADE TO UK BUSINESS ORGANIZATIONS.

Positioning of UK is fourth among the most open economy in the world. Trade relation between countries, sourcing, and cheap labour from developing countries plays an important role in shaping national activities. Exchange of goods, services

labour and capital among various countries and regions is called International Trade, It is one of the most important sources of revenue for a developing country.

The importance of international trade as well as Tesco Supermarket to operate businesses in UK is stated below :-

Improving Technology

Cutting down Communication & Transportation costs

Innovating business Products & Services

State economy of UK and the strength of pound have made UK an attractive area for foreign investors for their investments. To attract foreign businesses and foreign investments, government has initiated a variety of programs - for instance, companies have advantage to receive exemptions from property taxes and reimbursement for costs involved in the construction of new business locations and new factories.

How these factors help business development,

These factors help businesses to build larger in terms of suppliers, shareholders, employees, stake holders and customers. Transferring of intellectual assets, ideas, skills, tacit knowledge, update of technologies, advancement in business science, etc.

Increases competition, making products better and more consistent with the competition, offer better value and choice of products.

Despite the imbalances and complaints of international trade, currency upheavals, effects on economy, etc. International Trade will be the engine to run most nations through exchange of resources from borders to borders.

## 5 GLOBAL FACTORS THAT HAVE AN IMPACT ON UK BUSINESS ORGANISATIONS.

Globalization will provide businesses with better market opportunities to develop and expand, potential synergies may develop between UK businesses and businesses of other countries.

The global factors which will have an impact on UK businesses is explained below:.

World Trade Organization

WTO has been able to balance trade, environmental and health objectives, discussion illuminates the weaknesses and strengths of the dispute resolution process and closes with suggestions for improving it. Impact of new tariffs on overseas business from WTO is a burden for UK business policies.

BRICS Market

The economies of Brazil, Russia, India and China are growing rapidly, this might prove as a threat to the businesses operating in UK as they will face a tough competition or it could be seen in positive manner, as being viewed by the UK government currently of having a strong ties with these countries.

### Trading Blocs

Trading blocs are group of nations which come up together and eliminate few barriers to trade between those groups of countries. UK is working hard on EU bloc to implement a more tactical, organized and continuous move towards lobbying on market entrance and business issues.

### Tariff & Non-Tariff

Tariffs are not the only factor that could damage in the absence of a comprehensive trade deal. Regulatory and other non-tariff barriers could increase the cost of trading goods between the EU and UK and make it harder for exporters selling goods in either direction.

### International Business Environment

International business environment is the term use for the operation of the business operating over the globe for its environment with interest in other countries. In UK goods are sold and bought from different countries, this brings globalization and a good business environment between exchanging countries.

### Kyoto Protocol

Kyoto protocol was the first agreement between nations to reduce the greenhouse gas emissions, nearly all nations signed it earlier. The act committed UK to reduce its emissions by at least 80% UK anyhow try to move to a low carbon economy by scoping few ambitious targets to achieve.

### Rio Earth Summit

Earth summit took place at Rio, where government recognized the needs to redirect all economic decision took into account any environmental impact. UK agreed to prevent the eradication of the diversity of biological species and to maintain a clear check on climate change and its affects.

### G20

Group of 20 is an international forum that brings together the world's leading industrialized and emerging economies, in a formal meeting to discuss the top issues of the nations. In G20 UK achieved better control over immigration, reduced pressures on jobs, etc. possibly save billions of pounds of EU membership fees.

## 5.1 Impact on UK's Tesco Super-Market

Following are the impacts that Global factors will have on UK's Tesco's market:

WTO keeps a watch on the whole process of Tesco's standardization of products and services.

GAIT (General agreement on tariffs and trade) helps Tesco in reducing trade barriers and supporting business at a global level.

Even the developing economies like BRIC offer immense scope for expansion of Tesco's supermarket and also render plenty of opportunities.

Investments in regards with sales sector might increase the chances of Tesco to enter market at an international level and in developing economies.

The business operations of Tesco avail many benefits as well as threats from the global factors. The international trade is being controlled by the international body known as World Trade Organisation.

## 6 EUROPEAN UNION

The European Union has gained more power over the policy guidance of UK in business organization. EU has taken move towards the direction of eco-friendly environment, strengthen the industry and create jobs, it helps small companies to grow and promote their business through associating policies.

### 6.1 IMPACT OF ITS POLICIES ON UK BUSINESS ORGANISATIONS.

Few of the European Union policies are given below:-

#### Policies on Agriculture

The EU protects its farmers and growers through its Common Agricultural Policy. European farmers receive subsidies of around £40 billion each year, and these subsidies account for around 35% of the entire EU spending budget.

In UK farmers are often regarded as a special case for government support, food is a strategic good, and governments around the world often view food as a key economic objective.

#### Policies on Employment

Government in UK plays an important and a major role in trying to stimulate employment for the people, giving first priority to UK's residents and then trying to employee the migrants of other nations who look forward UK as an employment region.

Hundreds of laws regarding employment, employee working hours, vacancy, discrimination, minimum wage have come into existence for betterment of employees.

#### Policies on Education and Training

In UK education and training has contributed immensely for the betterment and growth of business life in UK. They believe in complete literacy and aims to achieve it.

Government plays an important role for betterment of education by forces changes through education and training by creating vocational subjects and monthly trainee campaigns.

#### Policies on Economics and Finance

As a result of the UK's contributions to the EU budget there are few consequences such as, consumer prices are affected through the common agricultural policy and common external tariffs levied on imports.

UK may be able to lower EU external tariffs. The EU has free trade within member countries, but imposes significant external tariffs on goods, such as agriculture, this raises the price of some food imports.

### Policies on Environment

EU environmental policy covers many areas from water quality and wildlife protection, biological factors to policies tackling industrial pollution and climate change, restrictions on raw materials, etc.

While we address environmental factors as negative impact it is the principal objective of EU policies, it also has some positive impacts on businesses as well as trade commissions in UK.

### Policies on Science and Technology

In UK science and technology play a vital role in business developments they have separate sectors for science and technology namely TechUK and SciUK respectively, these bodies represent more than 900 companies in UK making efforts for development and research.

UK is still able to stay in a single market only because of its development in field of Science and Technology, UK is still seen as an ally free market in the long run of business.

## 6.1 IMPACT ON UK'S TESCO SUPER-MARKET

Following are the impacts of European Union's Policies on UK's Tesco's Super-Market:-

Tesco will have to charge different VAT rates in different states, due to difference in VAT taxes among member states.

Policy requiring businesses to implement specific health and safety, employment, equal opportunity policies may cause Tesco's business to suffer.

Tesco's have many competitors in the market, competition lies in the quality and price of the product competition policy may result Tesco not to hold a monopoly in market.

Alternative cheap sources are bought from developing countries for UK Tesco's market, but they need to follow WTO rules.

## 7 END SECTIONS

### 7.1 Conclusion

From the above report, it can be articulated that the business environment has major influence on the operations and functioning of the world as well as the UK's Tesco Supermarket. There are many more global factors, which are impacting its business activities to a great amount. This encourages an organisation to eliminate or diminish the risk of facing failure in their operations and functioning and speaking in terms of UK's Tesco Super-Market this will help to evaluate the risks and engage into new product development or ways to improve efficiency in the Super-Market. In generally firms make use of PESTCL Analysis to understand the external environ-

ment that may affect the Business Followed by Analysis of Porters Forces to determine the potential power of Supply Chain, at time for Internal Analysis Firms choose to go through Internal Audit by conducting SWOT Analysis. Economic System, Fiscal & Monetary Policies serve as the base to determine and test the waters or Business Environment in the world.

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