

Economic Environment and Business Strategy

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Business Environment: Technology, Society, and Policy

Hello, everyone. Welcome to this session. Today, we'll focus on the government's role in the economy. In the previous session, we mainly discussed a market-based economy and used the supply-and-demand framework. We also examined the market mechanism framework.

The market is transparent. Prices are automatically set through the free interaction of demand and supply. However, if we let the market run completely on its own, fairness and equality principles might sometimes be at risk. In such cases, government intervention may be necessary.

Businesses operate within broader environments shaped by technology, culture, and, importantly, government policies. Keeping this in mind, the role of government is very broad today. Governments are considered welfare agents, with the objective of maximizing social welfare. They define the rules of the game, regulate markets, enforce contracts, and address market failures such as environmental pollution and factors that adversely affect public health. They promote fairness, protect vulnerable groups through various social security measures, programs, and policies, and support innovation and economic development.

In that way, the government has a much larger role to play in any economy. The key question here is: why set minimum wages or cap the prices of medicine? To explain this, consider what would happen if the government did not implement a minimum wage or set a cap on the price of medicines. How would it affect the economy? Should essential goods—like food—be taxed? Should they be taxed at all? And when is a subsidy more effective than a price cut? Instead of reducing the price, can we give a subsidy? These are key questions that, over the sessions—not only in this one but across the course—you will come to understand in greater depth. Why does this matter for business strategies? That is a critical aspect because understanding the why and how of government intervention helps firms adapt to policy shifts. For example, when the government reduces or increases the money supply, changes the interest rate, imposes more taxes, or implements a tax cut.

Firms need to anticipate potential changes and, based on that, adapt to these policies. They can also align with the regulatory environment to operate within the legal and regulatory framework, meet all required objectives, and perform better. This helps firms develop effective strategies in a politically and economically changing environment. These are the main reasons why this topic is important for business strategy. Keep this in mind as we move forward so we can address, understand, and explore these aspects more thoroughly.

We will now explore different concepts related to the business environment. These include the technological environment, the socio-cultural and demographic environment, and the political and government environment. After covering these areas, we will analyze the reasons for government intervention, the extent of that intervention, and the potential effects on various economic factors. Starting with the technological environment, it may seem simple, given that we live in a highly advanced technological world. We don't need much introduction to technology—what it is and how it functions.

However, to provide some context and set the stage, technology refers to the application of knowledge to production, which can take various forms. The technological environment includes both the creation of new knowledge and its use to enhance business efficiency. Overall, this results in increased production, employment, and a corresponding improvement in the standard of living and quality of life. Regarding technological development, there are broadly two types of research: basic or experimental research, which focuses on fundamental knowledge, and applied research, which aims to develop these ideas into commercial products.

Invention happens when new ideas about products or production methods emerge, and there are generally two types of innovation: product innovation and process innovation. Product innovation enhances or improves the original invention, while process innovation develops a production method that allows the original invention to be turned into more marketable and profitable products and services. We have numerous examples of technological progress, and the world we live in is marked by numerous technological advancements. These are just a few examples to give context. Porter, a well-known expert in the field, introduced the value chain to explain the role of technology in creating value.

Every business activity that transforms inputs into outputs presents an opportunity to apply technology in ways that enhance efficiency and add value to the production process—ultimately resulting in value creation. This, in turn, leads to increased production of goods and services, employment, and improvements in the overall quality of life and living standards. The value chain includes two main types of functions. One is the support function, which is horizontal. This supports and enhances a company's core operations, encompassing infrastructure, human resources, and technology development.

And procurement is followed by a primary business function that focuses on the direct creation and delivery of products and services, including inbound logistics, operations, outbound logistics, marketing, sales, and customer service. Regarding technological innovation, Joseph Schumpeter introduced the idea of creative destruction in 1934. Typically, we view destruction negatively. However, to him, there can be creative destruction—essentially, innovation. Innovation by entrepreneurs leads to creative destruction, as it renders old inventories, ideas, technologies, skills, and equipment obsolete.

For example, the film camera has now been replaced by the digital camera. The innovation in digital technology has largely destroyed—or at the very least, eliminated—the film camera industry, but at the same time, that destruction is productive and creative. Now that we understand the benefits of digital cameras, their ease of use and value to society and the economy show why we must continually pursue new inventions and consider how emerging innovations can replace older ones. Such inventions are ultimately welfare-focused; however, in the short term, they may directly harm some people who are affected. For example, when a new company develops digital technology—a digital camera—the companies that have produced film cameras will have to shut down.

And then it shuts down, but that is what happens when new technology emerges—a phenomenon known as creative destruction, which is often seen as beneficial for the economy in the long run. Creative destruction involves introducing new ideas, products, and technologies that replace existing ones. The process features intense competition between old and new technologies or products. In this case, the entrepreneurs who develop new products and technologies and disrupt existing markets are the agents of creative destruction. They enter and grow in the market, while firms and entrepreneurs who cannot compete with the new technology will exit the market.

Regarding the effects of technological change, it seems simple. We often assume that technological progress is always beneficial because, when we look around, we see improvements in productivity and higher employment. It also has implications for inequality; sometimes it can worsen inequality, or it may reduce it. Similarly, it influences the market power of firms.

The successful use of technology can enhance the performance of business firms by increasing productivity and efficiency, which can, in turn, boost overall prosperity for everyone. A diverse body of literature reveals varied effects across different countries, sectors, and populations. In some cases, the overall findings suggest that economic growth is linked to increases in labor productivity. You know that when workers operate with more advanced machines and technology, their productivity goes up. This can also lead to improved employment.

In cases of inequality, technology can sometimes increase employment; however, in the short term, mechanization or technological progress can lead to unemployment. The increased use of robots and office automation is likely to lead to short-term unemployment. However, examining overall macroeconomic data, we also see evidence of rising employment. Similarly, with inequality, if more people become unemployed, their income will fall. At the same time, those who utilize advanced technology will have a greater influence in the economy through their skills and decision-making power, and their income will consequently rise.

This can worsen income inequality, but that is just a theoretical prediction. What the empirical evidence shows, however, is that it varies. It becomes particularly intense for e-commerce firms, which now have access to a much larger market compared to local traders.

Local traders must compete with e-commerce and major tech giants. I am sharing some research evidence—just a few abstracts from various papers that can be found online. What is the relationship between technological change and economic growth? There are many analyses. For example, this paper states that the use of new technologies paves the way for producing new, cheaper goods, facilitating capital accumulation, and increased international competitiveness among countries. It also helps improve the quality of scientific research institutions while supporting the cultural and political development of society.

Overall, the quality of growth rates is as important as their size. These results are quite mixed. I have additional findings from studies. For example, here are the effects of technological change on productivity and economic growth.

There is a lot of literature. Some literature strongly argues that technological change is a key generator of economic growth based on rigorous theoretical and empirical work. They have shown that technological progress has accelerated the pace of economic growth. And I'm showing you some more, just for you to review and get some more ideas. For example, I mentioned earlier that the evidence is heterogeneous.

It does not show that. The impact of technological change on employment is not as simple as the basic theory suggests. One way to view it is that technological advances—such as increased office automation, the greater use of robots, and a growing reliance on machines—can replace workers, potentially decreasing job opportunities. That is one theoretical perspective. The other view is that as technology usage grows, it can create more opportunities for a skilled workforce, potentially improving job prospects overall. This could benefit the economy by increasing total employment.

In this way, you can say there is mixed evidence. Theoretically, technological change can reduce employment in some contexts, while in other sectors or contexts, it can increase

employment opportunities. Understanding this requires further research, including studies that utilize relevant data. With detailed data, we can see what kind of evidence emerges: in which sectors employment has increased, in which sectors employment has declined, and which population groups—skilled, semi-skilled, or highly skilled—are going to benefit from technological change. We can see which industries have experienced increased employment and which have declined.

All this becomes clear through empirical analysis. By examining research papers, we gain more clarity on this through the research evidence. Now, moving on to another component of the business environment, known as the socio-cultural and demographic environment. This is also a critical aspect of the overall business environment, the economic environment, and business strategy. In the socio-cultural and demographic environment of an economy, the first element is the social environment—all factors and trends related to groups of people, including their numbers, characteristics, behavior, and growth projections.

All these factors will affect the business environment. The cultural environment refers to the factors and trends that influence how people live and what they purchase. All of these are cultural environments. This includes the values, ideas, attitudes, beliefs, and activities of specific populations and subgroups.

These cultural environments also play a significant role in business decision-making. When firms operate in an economy, the people, their attitudes, and the cultural environment in which the company operates will affect it. Whether the people are more generous, more respectful of others' opinions, or more friendly, or have a better attitude and belief. All these matters, including social harmony, are crucial for a thriving business environment. The demographic environment is also part of the socio-cultural and broader environmental context.

For example, these include age cohorts, demographic profiles, family structures, demographic populations, educational characteristics, and population diversity. For example, in a society with a larger elderly population, this will have an impact on the business environment. Similarly, the family structure, bonding, and family size, whether a joint family or a nuclear family. Similarly, the educator, whether the population is highly educated or illiterate, is essential. Similarly, population diversity and different cultural groups living together.

All these matters are part of the overall business environment. For example, examining socio-cultural and demographic factors helps us understand how societal changes impact businesses. When economic growth occurs, aging becomes a significant factor. A growing elderly population in society can be either an opportunity or a challenge for

businesses. We don't know exactly, but what we can see here is that one key point is that in many societies, there is a growing elderly population.

One theoretical prediction is that as people live longer, they, of course, save more. More savings mean more capital is coming to the financial market. That means the firms are getting more funds at a reduced rate of interest; because more funds are coming to the market, the rate of interest will decline. As a result, you know that the firms will receive very cheap external funding.

That is one view of predictions. Another view of prediction is that if the elderly population is present, then, as a result, the current consumption will decline. There will be a decline in consumption. As a result, the aggregate demand for the firms will decline. This may, in turn, adversely affect their production and investment as well. In this way, we can understand how socio-cultural and demographic factors will affect firms and businesses in different ways.

I am providing you with some more research insights. For example, this study examines three groups of factors that influence entrepreneurship and entrepreneurs' perceptions of opportunity. They analyze social, cultural, and economic variables. They analyze how these factors affect entrepreneurship. Among all these factors, for example, social, cultural, and economic, they will not change instantly or quickly.

But at the same time, the economic factors, especially economic policies, often change. In this way, changes in social and cultural factors are more predictable because they occur over time. But economic variables are not that much less predictable. Moving forward, I have some additional screenshots of the abstract and will provide some insight. For example, the cultural determinants of a customer and a learning-oriented value system, as well as their joint effects on performance.

We then have another type of environment, known as the political and governmental environment. Here, we mainly examine the interdependence between business and government. Here, we can analyze the variations within liberal democracies, different types of political regimes, and the disparities in levels of economic development in the modern world. In the next session, we can discuss some critical areas of government intervention and their implications for business. Regarding the interdependence of business and government, the government's involvement in economic life is a characteristic of all capitalist and mixed economies, although its precise nature and scope vary significantly between different societies.

What I'm going to say here is that, especially in a traditional capitalist society, the level of government intervention is generally minimal. However, in the case of mixed economies—characterized by features of both capitalism and socialism—the level of government intervention is very high, and politics and business are not separate but rather

interdependent in several ways. Businesses depend on the government; if the government is stable and business-friendly, then businesses are more likely to thrive. At the same time, the government also depends on business; if business conditions worsen, government revenue declines. When the overall business environment is very poor and adverse, the outlook becomes pessimistic.

Then, overall production will be lower, new investment will decline, employment opportunities will shrink, and government revenue will also fall. This means that if business conditions worsen, the government's condition will also deteriorate. The main point here is that business and government are highly interdependent. and one needs the other for its existence. The role of government here is to determine the legal framework within which businesses operate.

It influences and determines the scope of market relationships and the balance or mix between the market and other sectors. It relates to the private sector not only as a significant customer but also as a provider of services and resources. It may also be that the government manages the macroeconomic environment through its economic and public policies, including fiscal policy, monetary policy, foreign trade policies, and several public policies, such as social and welfare policies; the government also represents business interests overseas, so these are the key areas of intervention by governments. So, when it comes to forms of government intervention, there are various types of government intervention.

One is called regulation. Regulation is one of the key forms of government intervention. You are aware that government intervention often takes the form of establishing regulations for corporate governance, employee relations, customer relations, and consumer protection. and relations with the investors, especially in the finance market, to ensure transparency and disclosure. For example, the government set up SEBI, and similarly, in the banking sector, the Reserve Bank of India regulates the banking system. To ensure competitive behavior and fair market relationships, competition policies are in place.

There are also governance regulations on the mergers and acquisitions of firms. To mitigate impacts on third parties and the environment, the government enacts various environmental laws. Apart from regulation, the government intervenes through taxation and subsidies. The government also provides various public services, such as education, health, social care, and income support. The government, as a service provider, is not only a customer—it also becomes a customer for other agencies. It manages the economy, maintains law and order, and introduces various public and economic policies. Public policies include several social security measures, while economic policies mainly include monetary, fiscal, and foreign sector policies, such as foreign exchange rate policies. In a government-led economy, various forms of government intervention are

present. One extreme form of government intervention is primarily in socialist or communist regimes.

There is full government control in socialist and communist countries. There is full government control, and every element of the economy—including price setting, quantity setting, wage setting, and decisions about what to produce, how to produce, and for whom to produce—is determined by the state. Most of these are decided by the government. In a socialist regime, the means of production, including land, capital, and other resources, are collectively owned by the public. And the stated objective is social welfare. However, the biggest consequence is inefficiency because there is no private motive and no profit motive.

Everything is done for the collective good of the economy. There is often inefficiency as a side effect of a communist regime. Price lists are prepared by the government, and all basic economic questions—what to produce, how to produce, and for whom to produce—are answered by the government. For example, China was initially a fully socialist economy with a communist political system, but since the 1980s, it has transitioned to a market socialist economy, meaning it is now... Not a fully government-controlled system; they also rely on the market in their economic sphere. ...the degree of government intervention varies.

Earlier, in typical capitalism, there was no government intervention. But over time, most Western countries shifted toward liberal democracy. Liberal democracies believe that some government intervention is necessary, but they support a minimal state. A minimal state means the level of government involvement in most economic decisions is limited. They will not interfere in firms' price setting, but the government will step in to ensure a developmental state—one that promotes the overall welfare of society. Nowadays, many capitalist societies in the Western world function more like social democratic states.

This means that, although they are capitalist, they follow a more welfare-oriented liberal capitalist framework. They apply various policies and approaches. What we have covered so far is government intervention. We explained that the government shapes the business environment through regulation, taxation, subsidies, and the legal framework. We also discussed technological change, and next, we will explore political systems and institutions. Understanding these dynamics helps firms adapt their strategies to the regulatory and policy landscape.

In the next session, we will examine various types of government intervention and their effects on different economic factors. See you then. Thank you.