



CLASS: MBA 2ND SEM

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LEGAL AND BUSINESS ENVIRONMENT
(Notes as per Punjab Technical University Syllabus)

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POLITICAL ENVIRONMENT OF BUSINESS

POLITICAL ENVIRONMENT

It includes all the factors which are related to government affairs like the attitude of the government, power of government towards different sectors of societies, policy changes implemented by different governments, etc.

The political environment creates a great impact on the business transactions so businessman must control this environment very easily and carefully. It includes various aspects such as:

- (i) Constitution of the country.
- (ii) Present political system.
- (iii) Values and ideology of political parties.
- (iv) Government intervention in business.
- (v) The foreign policy of the government.

THE EFFECTS OF THE POLITICAL ENVIRONMENT ON BUSINESS ORGANIZATIONS

1. Impact on the Economy

The political environment in a country affects its economic environment. The economic environment, in turn, affects the performance of a business organization. In the United States,

for instance, there are significant differences in Democratic and Republican policies. This has implications for factors such as taxes and government spending, which in turn affect the country's economy. A higher level of government spending tends to stimulate the economy, for instance.

2. Changes in Regulation

Governments could change their rules and regulations, which could have an effect on a business. For instance, after the accounting scandals of the early twenty-first century, the United States Securities and Exchange Commission became more focused on corporate compliance and the government introduced the Sarbanes-Oxley compliance regulations of 2002. This was a response to the social environment that called for such change to make public companies more accountable

3. Political Stability

Particularly for businesses that operate internationally, a lack of political stability in any country has an effect on operations. A hostile takeover could overthrow a government, for instance. This could lead to rioting and looting and general disorder, which disrupts the operations of a business. Such disruptions have occurred in Sri Lanka, which went through a protracted civil war, and in Egypt and Syria, which have been subject to disturbances as people agitate for greater rights.

4. Mitigation of Risk

One way to manage political risk is to buy political risk insurance. Organizations that have international operations use this type of insurance to mitigate their risk exposure as a result of political instability. There are indices that provide an idea of the risk exposure an organization has in certain countries. For instance, an index of economic freedom ranks

countries based on how political interference impacts business decisions in each country.

5. Analysis Tools

It is possible to analyze and forecast the impact of government policies on doing business. There's an established model called PEST analysis, which evaluates political, economic, social and technological factors that could affect the cost and difficulty of doing business. The political and economic sides of the analysis are directly government-related, while government policies indirectly affect the social and technological environment. An expanded form of PEST analysis, called PESTEL or PESTLE, adds legal and environmental factors to the equation. These, too, are strongly influenced by government policy.

THE IMPORTANCE OF OBSERVING THE POLITICAL ENVIRONMENT

Firms should track their political environment. Change in the political factors can affect business strategy because of the following reasons:

- The stability of a political system can affect the appeal of a particular local market.
- Governments view business organizations as a critical vehicle for social reform.
- Governments pass legislation, which impacts the relationship between the firm and its customers, suppliers, and other companies.
- The government is liable for protecting the public interest.
- Government actions influence the economic environment.
- Government is a major consumer of goods and services.

EXAMPLE: HOW POLITICAL FACTORS AFFECT NIKE

Studies show that Nike has earned high profits from the growth orientated policies of US government. The policies maintained low-interest rates. Currency exchange stability and internationally competitive tax arrangements were also maintained. The company has also

benefited from government initiatives in terms of transparency in the global value chain.

THE POLITICAL ENVIRONMENT COMPRISES THREE VITAL POLITICAL INSTITUTIONS:

1. Legislature
2. Executive
3. Judiciary.

1. LEGISLATURE:

Legislature is the most powerful institution. The main powers are vested in the legislature are; in today's economies, particularly of developing countries like India, relevance of a protective legal environment for Business assumes immense proportions as it is the very foundation of every investment decision.

The business has to be within the law of the Land. Every aspect of business from its birth till death is covered under the laws to ensure that not only profit is earned in a justified and fair way but also to ensure that in the attainment of business interests the interest of each person is fully protected and the profits of business are distributed in a manner beneficial to the society.

2. Executive

Government is the executory body of the laws which are framed by the legislature.

According to E. V. Schneider "Government is that institution by which men everywhere, seek to order society, that is, to control the structure and functioning of society."

According to Musselman and Hughes "Government is the centre of political authority having the power to govern those it serves."

In simple words, the role of the Government is to shape, direct and control the business

activities. The translations of the objective of any laws to the reality depend as much upon the law itself as on its implementation. The implementation of the law in its word and spirit only can ensure the realization of its true objectives.

Indian constitution provides for a federal setup with powers being divided between central and the state governments. The powers and functions of central and state government are described in the constitution.

3. Judiciary:

The third political institution is judiciary. The judiciary sees to it that the exercise of authority by the executives is according to the general rules laid down by the legislature, it may declare that any particular order issued is, infact, ultra vires (beyond the authority). It is the power of the Judiciary to settle legal disputes that affect business considerably.

✓ Following are a few examples of the disputes which are often referred to courts for settlement and the verdicts are sought:

- (i) Disputes between employers and employees
- (ii) Disputes between employer and employer
- (iii) Disputes between employee and employee
- (iv) Disputes between employers and the public
- (v) Disputes between employers and the government

In some cases the courts of justice protect the citizens from unlawful acts passed by the legislatures and arbitrary acts done by the Government or the executive. The judicial verdicts have far reaching consequences on business.

Next Topic

Fundamental Rights

Fundamental Rights are the most important characteristics of the Constitution. Fundamental Rights are considered to be essential for the proper moral and material uplift of people. These rights are fundamental in the sense that any law passed by the legislature in the country would be declared null and void if it is derogatory to the rights guaranteed by the constitution. If any of these rights are violated, the individual affected is entitled to move to the Supreme Court or High Court for the protection and enforcement of his rights. The rights are not absolute and can be curtailed during an emergency.

List of Fundamental Rights:

Following are the articles related to the fundamental rights

1. Right to equality (Articles 14–18)

- a) Equality before the law and equal protection of laws (Article 14).
- b) Prohibition of discrimination on grounds of religion, race, caste, sex or place of birth (Article 15).
- c) Equality of opportunity in matters of public employment (Article 16).
- d) Abolition of untouchability and the prohibition of its practice (Article 17).
- e) Abolition of titles except military and academic (Article 18).

2. Right to freedom (Articles 19–22)

(a) Protection of six rights regarding freedom of:

- i. speech and expression,
- ii. assembly,

- iii. association,
- iv. movement,
- v. residence, and
- vi. profession (Article 19).

(b) Protection in respect of conviction for offences (Article 20).

(c) Protection of life and personal liberty (Article 21).

(d) Right to elementary education (Article 21A).

(e) Protection against arrest and detention in certain cases (Article 22).

3. Right against exploitation (Articles 23–24)

(a) Prohibition of traffic in human beings and forced labour (Article 23).

(b) Prohibition of employment of children in factories, etc. (Article 24).

4. Right to freedom of religion (Article 25–28)

(a) Freedom of conscience and free profession, practice and propagation of religion (Article 25).

(b) Freedom to manage religious affairs (Article 26).

(c) Freedom from payment of taxes for promotion of any religion (Article 27).

(d) Freedom from attending religious instruction or worship in certain educational institutions (Article 28).

5. Cultural and educational rights (Articles 29–30)

(a) Protection of language, script and culture of minorities (Article 29).

(b) Right of minorities to establish and administer educational institutions (Article 30).

NEXT TOPIC

Directive Principles of State Policy (DPSP)

Introduction

- **Background:** The source of the concept of **Directive Principles of State Policy (DPSP)** is the Spanish Constitution from which it came in the Irish Constitution.
 - The concept of DPSP emerged from **Article 45 of the Irish Constitution**.
- **Constitutional Provisions:** Part IV of the Constitution of India (**Article 36–51**) contains the **Directive Principles of State Policy (DPSP)**.
 - **Article 37** of the Indian Constitution States about the **application of the Directive Principles**.
 - These principles aim at ensuring **socioeconomic justice** to the people and establishing India as a Welfare State.
- **Fundamental Rights Vs DPSP:**
 - Unlike the Fundamental Rights (FRs), the **scope of DPSP is limitless** and it protects the rights of a citizen and work at a **macro level**.
 - DPSP consists of all the **ideals which the State should follow** and keep in mind while formulating policies and enacting laws for the country.
 - Directive Principles **are affirmative directions** on the other hand, Fundamental Rights are negative or prohibitive in nature because they put limitations on the State.
 - The DPSP is **not enforceable by law**; it is non-justiciable.
 - It is important to note that DPSP and **FRs** go hand in hand.
 - DPSP is **not subordinate to FRs**.

- **Classification of Principles:** The Directive Principles are classified on the basis of their ideological source and objectives. These are Directives based on:
 - **Socialist Principles**
 - **Gandhian Principles**
 - **Liberal and Intellectual Principles**

Directives based on Socialist Principles

- **Article 38:** The State shall strive to promote the welfare of the people by securing and protecting a social order by **ensuring social, economic and political justice** and by **minimising inequalities** in income, status, facilities and opportunities
- **Articles 39:** The State shall in particular, direct its policies towards securing:
 - Right to an **adequate means of livelihood** to all the citizens.
 - The **ownership and control of material resources** shall be organised in a manner to serve the common good.
 - The State shall **avoid concentration of wealth in a few hands.**
 - **Equal pay for equal work** for both men and women.
 - The protection of the strength and health of the workers.
 - Childhood and youth shall not be exploited.
- **Article 41:** To secure the **right to work, to education and to public assistance** in cases of unemployment, **old age, sickness and disability.**
- **Article 42:** The State shall make provisions for **securing just and humane conditions of work and for maternity relief.**
- **Article 43:** The State shall endeavour to **secure to all workers a living wage and a decent standard of life.**
 - **Article 43A:** The State shall take steps to secure the participation of workers in the management of industries.
- **Article 47:** To **raise the level of nutrition and the standard of living** of people and to improve public health.

Directives based on Gandhian Principles

- **Article 40:** The State shall take steps to **organise village panchayats** as units of Self Government
- **Article 43:** The State shall endeavour to **promote cottage industries** on an individual or cooperative basis in rural areas.
 - **Article 43B:** To promote voluntary formation, autonomous functioning, democratic control and professional management of cooperative societies.
- **Article 46:** The State shall **promote educational and economic interests of the weaker sections** of the people particularly that of the **Scheduled Castes (SCs), Scheduled Tribes (STs) and other weaker sections.**
- **Article 47:** The State shall take steps to **improve public health** and prohibit consumption of intoxicating drinks and drugs that are injurious to health.
- **Article 48:** To **prohibit the slaughter of cows, calves and other milch and draught cattle** and to improve their breeds.

Directives based on Liberal-Intellectual Principles

- **Article 44:** The State shall endeavour to secure for the citizen a **Uniform Civil Code** through the territory of India.
- **Article 45:** To provide **early childhood care and education** for all children until they complete the **age of six years.**
- **Article 48:** To organise agriculture and animal husbandry on modern and scientific lines.
 - **Article 48A:** To protect and **improve the environment** and to safeguard the forests and wildlife of the country.
- **Article 49:** The State shall **protect every** monument or place of artistic or historic interest.
- **Article 50:** The State shall take steps to **separate judiciary from the executive** in the public services of the State.
- **Article 51:** It declares that to **establish international peace and security** the State shall endeavour to:
 - Maintain just and honourable relations with the nations.

- Foster respect for international law and treaty obligations.
- Encourage settlement of international disputes by arbitration.