

How do political factors influence business decision and policy formulation ?

Political environment includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business. The significance of political conditions in business success lies in the predictability of business activities under stable political conditions. On the other hand, there may be uncertainty of business activities due to political unrest and threats to law and order.

Political stability, thus builds up confidence among business people to invest in the long term projects for the growth of the economy. Political instability can shake that confidence.

Similarly, the attitudes of government officials towards business may have either positive or negative impact upon business. For instance, even after opening up of the Indian economy in 1991, foreign companies found it extremely difficult to cut through the bureaucratic red tape to get permits for doing business in India. Sometimes, it took months to process their application. As a result, these companies were discouraged from investing in India. The situation has improved over time but not to a great extent. Still India is ranked 63rd(2019) in the world in ease of doing business.

Government and business are the two most powerful institutions in society. The two together determine the public policy both domestic and foreign. In a situation of political stability business flourishes and businessmen venture to take greater risks. Changes in the nature and extent of government intervention in business

matters lead to changes in the pattern of industrial growth. When public sector was in a dominant position and industrial licensing was widely applicable, scale of operations and the location of project were decided by the government.

Between 1945 and 1979 the government increasingly interfered in the economy by creating state run industries which took the form of public companies. From 1979 onwards industries were sold off to private shareholders to create a competitive business environment.

In 1991, government control of business declined under the policy of liberalization, privatization and globalization. Further, a rise in corporate tax resulted in passing over some of this tax to consumers which raised the prices of the commodities. Other taxes like the landfill tax and value added tax. A rise in interest rates, as interest rate is determined by the government, raised the cost to business of borrowing money and consumers to reduce expenditure which resulted in fall of business sales. Government spending policy also affects the business, for instance, if the government spends more on schools, this will result an increase in income of businesses that supply school with books, infrastructure and equipments. Government also provides subsidy for some business activities like not-for-profit organization. Government has introduced foreign direct investments in order to get huge investments in infrastructure, aviation, insurance technology and pharmacy from foreign companies and multinationals.

Government has played a vital role in development of tourism. The current plan focuses on marketing, promotion, investment and infrastructure for expansion and promotion of tourism sector.

Government has also played a vital role in the development of e-commerce.

The ideology of the government also affects the business decision and policy formulation. Ideology of the government refers to the political thinking of the party which is currently holding office. It influences ownership, management, structure and size of the business. For example, the ideology of the government in power exercises very significant impact on tax laws, distribution mechanism, existence and development of big companies and so on. The ideology of the Government decides the type of business activity a country should have; the areas to be opened for private sectors like the privatization of electricity and introduction of metro in India and now mono rails; areas reserved for public sectors like the steel authority, railways; the areas in which foreign companies or their investments are allowed like the introduction of Foreign Direct Investment in insurance, aviation and now in multi-brand retail; the areas reserved for small scale industries like the jute, handicrafts, pottery and so on.

The Government enacts the Laws and Regulations covering all aspects of business. The government sets the rules of the game, ensuring the business to run smoothly and maintain competition, even if monopoly develops to regulate them by government intervention. A political system which is stable, honest, efficient, and dynamic and ensures security to the citizens is the key factor to economic development of the country. The developed countries owe their success to their rich political system which they enjoyed. In case of lack of political stability, long term plans cannot be formulated resulting in frequent changes in economic policies

and the ruling party. Relations of the government with other countries also affect the business. Cordial relations with other nations play a favorable impact on the foreign trade and cordial relations with the neighboring countries helps to reduce the defence budget. Hence, more funds can be allocated for infrastructure which will indeed help the business.

If the ruling party believes in socialism, government control and ownership of business will grow. For example, public sector dominated development strategy in India until 1990 because the Congress Party which has ruled the country for a long period adopted socialist pattern of society as its socio-economic philosophy. Changes in the political systems have led to major economic changes in the USSR and several East European countries. Major economic policies of a nation such as industrial policy, fiscal policy, monetary policy and foreign trade policy are often based on political considerations. Several political decisions have strategic implications for business and industry. For example, the political philosophy of Janta Party Government forced coca-cola and IBM to leave India in 1977.

Since then the clock has turned a full circle. Now multinationals are welcome in almost all types of industries in India. Even China is wooing foreign investment and technology. The coalition government of the NDA could not speed up disinvestment of public sector undertakings due to strong opposition from its coalition partners. Even in the case of the Congress led UPA Government reforms in labour laws are stalled due to resistance from the left parties.

CONCLUSION

Political environment includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business. The significance of political conditions in business success lies in the predictability of business activities under stable political conditions. On the other hand, there may be uncertainty of business activities due to political unrest and threats to law and order. Political stability, thus builds up confidence among business people to invest in the long term projects for the growth of the economy. Political instability can shake that confidence. Similarly, the attitudes of government officials towards business may have either positive or negative impact upon business. For instance, even after opening up of the Indian economy in 1991, foreign companies found it extremely difficult to cut through the bureaucratic red tape to get permits for doing business in India. Sometimes, it took months to process their application. As a result, these companies were discouraged from investing in India. The situation has improved over time but not to a great extent. Still India is ranked 132nd in the world in ease of doing business.

