

Meaning, Features Importance & Dimensions of Business Environment

1 Mark Questions

1. Why is it said that business environment is uncertain? (Compartment 2014)

Ans. Business environment is uncertain as it is difficult to predict future happenings when environment changes are taking place frequently.

2. What is included in 'Political Environment' of business? State. (Delhi 2014)

Ans. The following components are included in political environment of business:

- (i) Constitutional framework
- (ii) Political system
- (iii) Political structure
- (iv) Government interventions in business
- (v) Foreign policy and defence policy of the country

3. What is included in 'Legal Environment' of business? State. (All India 2014)

Ans. Legal environment includes:

- (i) Several acts passed by government.
- (ii) Court judgements.”
- (iii) Statutory warnings prescribed under law.
- (iv) Legislations passed by the government, e.g. essential commodities, etc

4. Why is business environment called dynamic? State (Compartment 2014)

Ans. Business environment is dynamic as it keeps on changing. It is not static and its components are highly flexible, e.g. technological improvements, increase in competition, etc.

5. What is included in the 'Technological Environment' of business? State (Compartment 2014)

Ans. Technological environment includes scientific improvements and innovations, which provide new ways of producing goods and services. It also includes news methods and techniques of operating a business.

6. Business environment includes both specific and general forces. List any four specific forces. (Delhi 2011)

Ans. Specific forces of business environment are:

- (i) Suppliers
- (iii) Customers

- (ii) Investors
- (iv) Competitors

7. Business environment includes both specific and general forces. List any four general forces. (All India 2011)

Ans. General forces of business environment are:

- (i) Social
- (ii) Political
- (iii) Technological
- (iv) Legal

8. The understanding of business environment helps the managers to identify threats. What is meant by 'threats' here? (HOTS; Delhi 2011)

Ans. Threats refer to the external environment trends and changes that will hinder a firm's performance.

9. The understanding of business environment enables the firm to identify the opportunities. What is meant by 'opportunities' here? (HOTS; All India 2011)

Ans. Opportunities refer to the positive external trends or changes that will help a firm to improve its performance.

3 Marks Question

10. What is meant by business environment? Explain dynamic nature and uncertainty as features of business environment. (Delhi 2011)

Ans. Business environment is the sum total of all individuals, institutions and other forces like customers, competitors, suppliers, distributors, industry trends, substitutes, regulations government activities, social and cultural factors that are outside the control of the business enterprise but may affect its performance.

Features of business environment are:

Dynamic nature Business environment is dynamic as it keeps on changing. It is not static and its components are highly flexible, e.g. technological improvements, increase in competition, etc.

Uncertainty Business environment is uncertain as it is difficult to predict future happenings when environment changes are taking place frequently

4/5 Marks Questions

11. Why is the understanding of business environment important for Explain with the help of any four points. (Delhi 2014)

or

Understanding of environment by business managers enables them not only to identify and evaluate, but also to react to the forces external to their firms? In the

light of the statement, explain any four points of importance, of business environment. (Compartment 2014)

or

Explain any four points of importance of business environment. (Compartment 2014, All India 2011, Delhi 2011)

or

State any five points which clarify how understanding of business environment helps the managers? (All India 2012)

or

Explain by giving any five reasons why understanding of business environment is important for managers ? (All India 2010; Delhi 2010c)

or

Explain by giving any four points, why 'in the present day competitive market, it is essential for a business to remain alert and aware of its environment'? (All India 2010; Delhi 2010C)

Ans. In the present day of competitive market, it is essential for a business to remain alert and aware of its environment, because of the following points:

(i) Identify opportunities and getting the first mover advantage Awareness of environment helps an enterprise to identify the opportunities prevailing in the market and they can make strategies to capitalise such opportunities at the earliest, e.g. Maruti Udyog became the leader in the small car market because it was the first, who recognised the need for small cars in the environment.

(ii) Identify threats and early warning signals Environmental awareness helps an enterprise in identifying possible threats in future, so that the enterprise can take timely measures to minimise the threats and its adverse effects, if any, e.g. when the new firms entered in the mid segment cars (threat), Maruti Udyog increased the production of its Esteem car. Increase in production enabled the company to make faster delivery. As a result, the company captured a substantial share of the market and became a leader in this segment.

(iii) Assist in planning and policy formulation Environment awareness helps a business unit to identify opportunities and threats in the market. These serve as a basis for planning future course of action and making policies for the same.

(iv) Tapping useful resources A business environment is an open system which gets resources such as capital, labour, machines, materials, etc from the environment, converts them into goods and services desired by the customers and then supplies its output to the environment. Thus, a business firm depends on its external environment for tapping various resources and for the sale of its output.

12. What is meant by ‘business environment’? Explain any three features of business environment. (All India 2014; Foreign 2014)

or

Explain any four characteristics of business environment. (Compartment 2014)

or

State any five features of business environment. (Delhi 2012,2012c)

Ans. Business environment is the sum total of all individuals, institutions and other forces like customers, competitors, suppliers, distributors, industry trends, substitutes, regulations, government activities, social and cultural factors that are outside the control of the business enterprise but may affect its performance.

The main features of business environment are:

(i) Totality of external forces Business environment is the sum total of all external forces outside the control of a business.

(ii) Consists of specific and general forces Specific forces are those, which affects the individual enterprises, viz competitors, customers, investors, and suppliers. Whereas general forces have an impact on all business enterprises. The general forces comprise of social, political, legal, economic and technological forces.

(iii) Complexity Business environment is complex, as to understand it in totality, e.g. it becomes difficult to know the extent of relative impact of social, economic, political, legal and technological, factors on change in demand of a product.

(iv) Uncertainty Business environment is largely uncertain as it is very difficult to predict future happenings, especially when changes take place at a fast pace.

(v) Relativity Business environment is relative as it differs from place to place and region to region.

13. The court passed an order that all schools must have water purifiers for the school children as

- **Society in general is more concerned about quality of life.**
- **Innovative techniques are being developed to manufacture water purifiers at competitive rates.**
- **Incomes are rising and children at home are also drinking purified water.**
- **The government is also showing positive attitude towards the water purifier business.**

Identify the different dimensions of business environment by quoting from the above details. (HOTS;VBQ; Delhi 2013)

Ans. The court passed an order that all schools must have water purifier’.



The quoted line is depicting legal environment. Business has to function within the framework of laws and regulations of the country. Legal environment exercises significant influence on business activities.

(i) 'Society in general is more concerned about quality of life'.

The quoted line is depicting the social environment as this environment consists of all the social and cultural forces within which business firms operate

(ii) 'Innovative techniques are being developed to manufacture water purifiers at competitive rates'.

The quoted line is depicting the technological environment. It includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services.

(iii) 'Incomes are rising and children at home are also drinking purified water'.

The quoted line is depicting the economic environment. It consists of the factors and forces concerning means of production and distribution of wealth. It includes all such forces of economic development which influence the product's market scope of business.

(iv) 'The government is also showing positive attitude towards the water purifier business'.

The quoted line is depicting the political environment. It is concerned with the forces related with political stability, and political conditions that have strong impact on business.

14. The court passed an order to ban polythene bags as

- These bags are creating many environmental problems which affect the life of people in general.
- Society in general is more concerned about quality of life.
- The government decided to give subsidy to jute industry to promote this business.
- Innovative techniques are being developed to manufacture jute bags at low rates.
- Incomes are rising and people can afford to buy these bags.

Identify the different dimensions of business environment by quoting the lines from the above particulars. (HOTS;VBQ; All india2013)

Ans. 'The court passed an order to ban polythene bags'.

The quoted line is depicting the legal environment. Business has to function within the framework of laws and regulations of the country. Legal environment exercises significant influence on business activities.

‘Polythene bags are creating many environmental problems which affect the life of people in general’ and ‘society in general is more concerned about quality of life’.

These quoted lines are depicting the social environment, which consists of all the social and cultural forces within which business firms operate.

‘Government decided to give subsidy to jute industry to promote this business’.

The quoted line is depicting the political environment, which is concerned with the forces related with political stability and political conditions that have strong impact on business.

‘Innovative techniques are being developed to manufacture jute bags at low rates’.

The quoted line is depicting the technological environment. It includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services.

‘Incomes are rising and people can afford to buy these bags’.

The quoted line is depicting the economic environment. It consists of the factors and forces concerning means of production and distribution of wealth. It includes all such forces of economic development which influence the product’s market scope of business.

15. Management of every enterprise can be benefited from being aware of different dimensions of business environment. Explain any four such dimensions (All India 2010)

Ans. Dimensions of business environment are as follows :

(i) Economic environment It consists of economic factors that influence the business in a country. These factors include Gross National Product, corporate profits, inflation rate, employment, Balance of Payments, interest rates, consumer income, etc. Economic environment in a country has strong influence on the business in that country.

(ii) Social environment It describes the characteristics of the society in which the organisation exists. Literacy rate, customs, value beliefs, life style, demographic features and mobility of population are the part of the social environment. The trend of change can be predicted well in advance. It is important for managers to notice the direction in which the society is moving and formulate progressive policies according to the changing social scenario.

(iii) Political environment It is the outcome of a combination of various ideologies advocated by different political parties. Every political party has a different attitude towards business community. A live example of this, can be seen during elections when there is a fluctuation in the share market.

(iv) Legal environment It consists of legislation that is passed by the Parliament and state legislatures. This component sets the framework of law within which the business is free to operate. Example of such legislation specifically aims at business operations which include the Trade Marks Act, 1999, Essential Commodities Act, 1955, Standards of Weights and Measures Act, 1969 and Consumer Protection Act, 1986.