

Chapter-3 Business Environment

VERY SHORT ANSWER TYPE QUESTIONS (1 MARK)

1. What is Business Environment?

Ans. Forces affecting the performance of an organization but outside its control are called as Business Environment.

2. How have customers benefited by increased competition after liberalization and globalization?

Ans. While purchasing they get a better quality and wider choice of goods and services.

3. How can the firms cope up with changing technological environment?

Ans. They have to develop new ways.

4. What do you mean by Globalization?

Ans. When the various economies of the world integrate, it is known as Globalization.

5. Which policy of Indian Government has moved India towards globalization?

Ans. The Industrial Policy of 1991.

6. What do you mean by disinvestment?

Ans. When the private sector takes over public sector, it is called disinvestment.

7. Give one measure taken by Indian Government to introduce liberalization.

Ans. Abolishing licensing requirements.

8. What do you mean by first mover advantage?

Ans. Early identification of opportunities.

9. What are Values?



Ans. Concepts held by a society in high esteem are values.

10. Which of the sector was given importance after independence?

Ans. Public sector.

11. What was the responsibility given to private sector after independence?

Ans. Developing consumer goods industry was the responsibility given to private sector.

12. What do you mean by Liberalisation?

Ans. It means reduction in government controls and restrictions

13. Which two factors are included in Technological Environment?

Ans. Scientific Improvement and Innovations.

14. What is meant by opportunities?

Ans. It refers to the positive external trends that help an enterprise to improve its performance.

15. What do you mean by Innovation?

Ans. Producing goods and services by new methods is called as Innovation.

16. Name the economic reforms introduced to free Indian business from unnecessary controls and restrictions.

Ans. Liberalisation.

SHORT ANSWER TYPE QUESTIONS (3 OR 4 MARKS)

1. Define Business Environment. State two important concerns of business environment.

Ans. The sum total of all external factors which are outside the control of business enterprises is termed as Business Environment. Factors may be social, political, economic etc.

2. Explain the specific and general forces of business environment ?



Ans. Business environment comprises of both specific and general forces. Specific forces refer to those forces that are having direct effect on the day to day working of the business viz. customers, competitors, investors etc. General forces refer to social, political, legal and other forces which are having an indirect effect on the operations of a business.

3. Enumerate the benefits of understanding business environment.

Ans. The benefits of understanding business environment are:

- (i) Enabling the identification of opportunities and getting the first mover advantage.
- (ii) Helping in the identification of threats and early
- (iii) Tapping useful resources.
- (iv) Coping with the rapid changes.
- (v) Assisting in planning and policy.
- (vi) Improvement in performance.

4. What are the main dimensions of business environment? What does environment consist of?

Ans. The main dimensions of business environment are

- (i) Economic, (ii) Social, (iii) Technological, (iv) Political, (v) Legal
- Economic environment consists of the factors having economic dimensions such as fiscal policy, monetary policy, industrial policy etc.

5. Explain the role of political environment in shaping the business.?

Ans. Business functions within the framework of political environment. Generally, government's policies change with the change of guard in power. Business is required to understand and follow such changes and also respect the orders that judiciary gives from time to time.

For example, after globalization, Government of India allowed many companies to enter the Indian market for giving boost to the different industries like food processing industry etc. That paved the way for entry of multinationals in India on a large scale.

6. Explain the concept of technological environment.

Ans. It includes new approaches, new procedures, and new equipment's to transform inputs into outputs. It facilitates an organization's efficiency and effectiveness so that it can try to



remain at par with the best in the world. Technological changes provide opportunities for some enterprises and become threats for some others.

For example, digital watches killed the business prospects of traditional watches; TV has adversely affected radio & cinema industry; mobile phones have taken over the market from landline phones.

7. What do you understand by legal environment? Give two examples which protect consumers' interests.

Ans. Legal environment consists of rules and regulations, framed by the Parliament, under which business must operate. To exist and grow, business is required to follow all the rules and regulations that constitute this environment.

Two examples protecting consumers' interests:

- (i) Advertisement of alcoholic beverages is prohibited.
- (ii) Packets of cigarettes should mention the statutory warning 'Cigarette smoking is Injurious to health'.

8. List the various changes initiated by the Government of India since 1991.

Ans. Various changes initiated by the Government of India since 1991 are as follows:

- (i) New industrial policy
- (ii) New trade policy
- (iii) Fiscal reforms
- (iv) Monetary policy
- (v) Capital market reforms
- (vi) Phasing out of Subsidies and Price controls

9. List some important factors that influence the working of a business enterprises?

Ans. Following are the important factors that influence the working of a business enterprise:- (i) Changes in economic policies. (ii) Political uncertainty in the country. (iii) Increase in the rate of competition. (iv) Changes in fashion.

LONG ANSWER TYPE QUESTIONS (5 OR 6 MARKS)

1. What do you mean by business environment? Explain the key components of business environment.

Ans. Business environment is the sum total of all external factors that influence the

functioning of a business enterprise. The components of general environment are:

(i) Economic environment:

Economic environment consists of factors having economic dimensions such as fiscal policy, monetary policy, industrial policy etc.

Impact: Banking sector reforms have led to attractive deposit avenues and easier credit policy. Likewise reforms in leasing & financial institutions are also catalyzing company's economic growth.

(ii) Social environment: It discriminates characteristics of the society in which an enterprise exists. It consists of literary rates, educational levels, customs and demographic distribution etc.

Impact : Equal pay for equal work for both male and female workers, reservation of jobs for minorities etc.

(iii) Political environment

It consists of the political forces responsible for the management of public affairs and their influence on business.

Impact : Government allowed Pepsi to enter Indian market again for giving boost to the food processing industry.

(iv) Technological environment

It comprises of the various processes, techniques, approaches etc. by which an organization transforms inputs into output.

Impact : Digital watches have pushed out traditional watches.

(v) Legal Environment : It characterises various governmental rules, regulations and legislations etc. that all members of business community must follow.

Impact : Removal of control on foreign exchange and liberalization of foreign direct investments.

2. What do you understand by economic environment? List the main aspects of economic environment.

Ans. Economic environment consists of factors likes inflation rates, interest rates, consumer's incomes, economic policies, market conditions etc. which affect the performance of a business firm.

Following are the main aspects of economic environment:

(i) The role of public and private sector in the existing structure of the economy.

(ii) The rate of increase in GNP and per capita income both at current and constant prices.



- (iii) Quantum of exports and imports of different products.
- (iv) Increase in transportation and communication facilities.
- (v) Trends in agricultural and industrial productions.
- (vi) Amount of savings and investments.

3. Social environment of business is important for a business enterprise".

Explain ?

Ans. A business is a part of the society in which it operates. The buying and consumption habits of the people, their languages, customs, preferences, tastes etc. are the factors that influence the business. Businessmen should be alert enough to visualize the factors that directly or indirectly affect their organization. Cooperation between business and society will see business boom and will help growth of professional managers. The failure of any business

organization in adapting to changes in the social environment will lead to dissatisfaction amongst its customers and rejection of its products. This shift of demand can even endanger the very survival of a business. For example, equal pay for male and female workers, demand for reservation in jobs for minorities and women etc.

4. Enumerate negative impacts of liberalization and globalization.

Ans. The negative impacts of liberalization and globalization are as follows;

- (i) Threats from Multinational Companies (MNCs).
- (ii) Corporate vulnerability.
- (iii) Increased competition.
- (iv) Fast changing technology.
- (vi) High obsolescence of material resources.
- (vii) High labor turnover.
- (vii) Threat to indigenous culture and values.

5. Enumerate any ten Positive impacts of liberalization and globalization.

Ans. The positive impacts of liberalization and globalization are as follow:

- (i) Opportunities for new entrepreneurs.
- (ii) Latest technology becoming available.
- (iii) Opening up of foreign markets.
- (iv) Easy imports of capital goods.
- (v) Direct investment by Indian companies abroad.
- (vi) Changed attitude of labor unions,



- (viii) Easy inflow of foreign capital.
- (ix) Freedom to expand and diversify.
- (x) Restructuring of industries.
- (x) Widening of product choices for consumers.

6. Explain any five negative impacts of liberalization and globalization.

Ans. Following are the negative effects of liberalization and globalization.

(i) Threats from multinational companies (MNCs)

With the arrival of multinationals it is becoming difficult for small and medium business units to even survive. The massive entry and consolidation to multinationals in the Indian markets is a challenge that has already forced some business enterprises to take the exit route.

(ii) Destabilization of protected environment

With easier entry of multi-national companies, Indian business environment is fast losing its protective shield. The new entrepreneurial freedom is creating problems for the existing players. Even manufacturers of Maruti car could not retain their market share and had to remodel their products and announce heavily price reductions from time to time.

(iii) Decline in public sector

Public sector is losing markets and their capacity utilization has declined, hampering thereby pace of country's technological and economic growth.

(iv) Sellers' market turned into buyers' market

With the entry of foreign goods and services, shortage of goods, which is boon for the sellers, has now turned into surplus. Resultantly, sales/margin to any sellers have come down substantially. Buyers are now free to buy any product of their choice at a price they can afford.

(v) Fall in the value of rupee

Indian rupee has been devaluing against DOLLAR, EURO and many other foreign currencies. This phenomenon has forced even some established exporters to encase their stake partly/fully.

QUESTIONS WITH DIFFERENT DIFFICULTY LEVELS

1. Why is business environment uncertain? - [1]

Ans. Future happenings are very difficult to predict.



2. What is meant by Market Orientation? - [1]

Ans. The firms produce goods after analyzing the market needs.

3. How can environment awareness help managers? - [1]

Ans. Various threats are identified in time.

4. How can political stability be beneficial to the economy? - [1]

Ans. Confidence among the business people is built up to invest and take up new ventures.

5. What was the immediate cause of economic reforms in 1991? - [1]

Ans. High Government deficit.

6. What is meant by threats?(1)

Ans. It refers to those environmental trends which hinder the performance of an enterprise

7. Give one of the most important objectives of Indian development programs at the time of independence.(1)

Ans. Rapid Economic Growth

8. 'Environment provides both constraints and opportunities.' Comment.

Ans. Business environment provides both constraints and opportunities. Some of the constraints are economic conditions, customs, government regulations, availability of natural resources etc. Inspire of many initiatives, FDI is not picking up in India due to political and bureaucratic hurdles. On the other hand, environment also offers various opportunities

which include changin needs of customers, technological advances etc. Forexample, the growing demand for A.C. has attracted many new players, domestic (Godrej, Kirloskar) as well as multinationals (LG Electronics) to this industry. **(3or4)**

9. Business environment or Environmental Scanning helps in the identification of threats and early warning signals." Explain?-[3or4]

Ans. Environmental scanning helps an enterprise to recognize qualitative information in advance, which can be used to prepare it for facing likely challenges. For example, if any new multinational company is entering the Indian market, the manager of an Indian firm dealing with same product, as that of the multinational company, should take it as a warning signal. He should take measures like improving the quality of his product, heavy advertisement etc. to face the challenge.



10. What is meant by liberalization? List the impact of changes in government policy On business and industry. (3 or 4)

Ans. Indian economy has gradually become more liberal and global since 1991.

Liberalization refers to the removal of various outdated rules, regulations etc. and providing more helpful norms for the business to grow, particularly in the fields of exports and imports. Some of the impacts of changes in government policy on business and industry are as under:

- (i) Increasing competition.
- (ii) More demanding Customers
- (iii) Rapidly changing technological environment
- (iv) Necessity for change.
- (v) Need for developing human resource.
- (vi) Market orientation.
- (vii) Loss of budgetary support to the public sector.

Ans. Privatization refers to reducing the role of public sector and increasing the role of private sector for rapid development of the nation.

11. Explain the meaning of the term Privatization? List any two reforms made under Privatization.(3 or 4)

Two reforms made under Privatization:

- (i) Loss making or sick public sector enterprises were either closed or handed over to Board of Industrial and Financial Reconstruction.
- (ii) Disinvestment of public sector enterprises.

12. Enumerate the various ways in which managers respond to changes in business environment.(3 or 4)

Ans. Following are the ways in which managers respond to changes in business environment:

- (i) Strategic alliances, mergers and acquisitions of businesses.
- (ii) Diversification.
- (iii) Collaboration with multinationals.
- (iv) Brand building.
- (v) Restructuring of business activities.
- (vi) Capital restructures.



- (vii) Customer focus.
- (viii) Latest technology.
- (ix) Compensation levels and incentive schemes.

13. Mention four examples of acquisitions and mergers. (3 or 4)

Ans. Four examples of mergers and acquisitions are:

- (i) SRF buy Ceat's Rayon Tyre Cord.
- (ii) Parle's take-over by Coke.
- (iii) Godrej has bought over Goodnight.
- (iv) Hutch by Vodafone.

14. Explain the changes initiated by the Government of India since 1991.(5 or 6)

Ans. Following changes have been observed since 1991:

(i) New Industrial Policy:

- Government has begun disinvesting in public sector undertakings.
- There are new schemes to attract Foreign Direct Investment (FDI).
- There is prompt clearance of foreign investment proposals.
- Tax concessions are given to units in Special Economic Zones (SEZs).
- There is broadband facility in telecom sector.
- Abolition of industrial registration schemes.

(ii) New Trade Policy:

- There is liberalization of import policy.
- Deemed exporters are entitled to special import licenses.
- There are greater concessions to Export Oriented Units (EOU) and units in Export Promotion Zones (EPZ).
- Credit is now less expensive and many imports are duty free.
- Simplification of procedures related to export promotion.
- Removal of export quotas & reduction in import duties.

(iii) Fiscal Reforms

- Measures have been taken to bring down fiscal deficit.
- Tax reforms have been initiated to increase revenue and tax compliance.
- Reduction in direct and indirect taxes.
- Decrease in subsidies.

(iv) Monetary Reforms

- Phased reduction of statutory liquidity ratio (SLR).
- Private sector banks allowed to set up new branches.
- Banks have now been allowed to access capital market for raising capital.
- Permission for disinvestment (up to 49% of total equity).

(v) Capital Market Reforms

- Ceiling on rate of interest on debentures and bonds abolished. FIIs can access capital markets.
- Private sector can set up mutual funds.
- Bonus issues have been made more liberal.
- Security and Exchange Board of India (SEBI) has been made a statutory body

15. 'Explain 'fiscal reforms' and 'monetary reforms' as per economic change initiated by Government of India since 1991. (5 or 6)

Ans. (i) Fiscal Reforms

- Measures have been taken to bring down fiscal deficit.
- Tax reforms have been initiated to increase revenue and tax compliance
- Reduction in direct and indirect taxes.
- Decrease in subsidies.

(ii) Monetary Reforms

- Phased reduction of statutory liquidity ratio (SLR).
- Private sector banks allowed to set up new branches.
- Banks have now been allowed to access capital market for raising capital.
- Permission for disinvestment (up to 49% of total equity).

16. Explain any five ways in which managers have responded to changes in business environment. (5 or 6)

Ans. Following are the ways in which managers have responded to changes in businessmen environment:

i) Strategic alliance, mergers and consolidation of businesses

To achieve the objectives of market dominance, market entry, product ranges etc., the Indian business enterprises are also indulging in mergers, acquisitions, amalgamations and takeovers. Initiative for same has naturally come from managers of such enterprises.



ii) Diversification spree: Managers are leading diversification of their companies into various fields. For example, Reliance is now also in the business of communications, retail chains etc. Likewise, they are bold enough to diversify into other nations too if need be.

iii) Consolidation of multinationals: Many multinational companies have entered India through new joint ventures. For example, General Motors' entry through a joint venture with Hindustan Motors.

iv) Brand Building: Companies are becoming more aggressive towards brand building. Their managers are spending huge amounts on same. Focus is on securing prime positions for their brands, through creative media-mix, in the minds of consumers.

v) Labor : Managers are changing their behavior towards labor. Labor is also benefitted through higher wages and other facilities like training to upgrade their skills and job enrichment



QUESTIONS FOR PRACTICE

Q1. “The understanding of business environment helps the managers to identify threats. What is meant by ‘threats’ here? (Hint: It refers to the external environment trends and changes that will hinder a firm’s performance)

Q2. Govt. of India allowed oil marketing public sector undertaking to fix their own price for petrol and diesel. Which economic reform is the reason of this change in Govt. policy. Explain briefly. [Hint: Liberalization]

Q3. “The understanding of business environment helps the manager to identify “opportunities”. What is opportunities here? [Hint : It refers to positive changes and trends that helps the business to improve its performance.]

Q4. Mr. Sohan is the owner and manager of a grocery store. He attended a management seminar. The topic was on globalization and impact of technology on business. He was surprised to see how media and internet provide opportunities to expand business. He also felt there is a need to upgrade technology to expand business outside the city.

(a) Which business environment dimension is being referred here?

(b) What should Sohan do to avoid any negative impact of changes in business environment. (Any two)

(c) What value does Sohan exhibit by adapting to business environment dimension in part

(a) [Hint: (a) Technological (b) optimum utilisation of resources,

(b) Providing after sales services etc. part (c) Growth].

Q5. Mr. Ajay, after completing MBA from USA comes to India to start a new business under the banner E.Com creations Ltd. He launches a new brand in E-learning for Senior Sec School students in commerce stream, which already has an established market in UK and USA but not in India. His business starts flourishing in India. Now more Indian companies entered into the market with other subjects also.

(a) Which dimension of business environment is highlighted here?

(b) Identify by quoting the lines from above para, the elements of importance of business environment.

[Hint: (a) Economic Environment

(b) Opportunity - He launches.....]

Threat - Now more Indian.....]

Q6. The Court passed an order that all schools must have water purifier for the school children as:

(1) Society in general is more concerned about quality of life

(2) Innovative techniques are being developed to manufacture water purifier at competitive rates.

(3) Incomes are rising and children at home are also drinking purified water. The govt. is also showing positive attitude towards water purifier business. Identify the different dimensions of business environment by quoting lines from above para/details.

[Hint: Legal envt. - The court.....

Social - Society.....

Technological - Innovative.....

Economic - Incomes.....

Political - The Govt. is also.....]

