

Gujarat Board Textbook Solutions Class 12 Organization of Commerce and Management Chapter 12 Business Environment

1. Select the correct alternative and write answer to the following questions :

Question 1. In which year the Industrial Development and Regulation Act came into force?

- (A) 1951
- (B) 1955
- (C) 1969
- (D) 1986

Answer:

- (A) 1951

Question 2. In which year did Essential Commodities Act come into existence?

- (A) 1951
- (B) 1955
- (C) 1969
- (D) 1986

Answer:

- (B) 1955

Question 3. In which year did Trade Mark Act came into existence?

- (A) 1951
- (B) 1955
- (C) 1969
- (D) 1986

Answer:

- (C) 1969

Question 4. In which year Standardized Weights and Measures Act came into existence?

- (A) 1951
- (B) 1955
- (C) 1969
- (D) 1986

Answer:

- (C) 1969

Question 5. In which year did Consumer Protection Act came into force?

- (A) 1951
- (B) 1955
- (C) 1969
- (D) 1986



Answer:

(D) 1986

Question 6. In which year did liberalization privatization and globalization start in India?

(A) 1951

(B) 1991

(C) 2001

(D) 2011

Answer:

(B) 1991

Question 7. How is India's currency symbolized?

(A) Rupees

(B) Rs.

(C) ₹

(D) SI

Answer:

(C) ₹

Question 8. At present, which act is prevalent for foreign exchange in India?

(A) FERA

(B) FECA

(C) FESA

(D) FEMA

Answer:

(D) FEMA

Question 9. Which of the following is not the benefit of privatization?

(A) Increase in productivity

(B) Absence of political interference

(C) Exploitation of employees

(D) Use of modern technology

Answer:

(C) Exploitation of employees

Question 10. Which of the following options is benefit of privatization?

(A) Misuse of power by the top bureaucrats

(B) Unequal distribution of income and wealth

(C) Exploitation of consumers

(D) Production of quality goods and services

Answer:

(D) Production of quality goods and services



2. Answer the following questions in one sentence each :

Question 1. Give only names of factors related to business environment.

Answer:

Economic, social, cultural, technological, political and legal factors.

Question 2. Give name of groups related to business environment.

Answer:

Business environment includes many groups like consumers, competitors, suppliers of raw materials, employees, etc.

Question 3. Which are the two main classification of factors of business environment?

Answer:

Internal factors and external factors

Question 4. Give only names of internal factors affecting business environment.

Answer:

- Business objectives,
- Employees and
- Managerial systems i.e. organizational structure.

Question 5. When can there be an increase in per capita income?

Answer:

When the rate of income is higher than the population, the per capita income increases.

Question 6. Which aspects are included in monetary policy?

Answer:

Monetary policy includes changes in interest rates, inflation rate, credit creation, credit availability, etc.

Question 7. Which aspects are included in fiscal policy?

Answer:

Tax structure and government expenditure.

Question 8. Which aspects are included in cultural factors?

Answer:

Traditions, customs, beliefs, lifestyle, etc.

Question 9. What initiative have the banks taken to simplify banking operations and understand the procedure?

Answer:

Banks have started e-banking i.e. internet banking and m-banking i.e. mobile banking.



Question 10. What is essential to get benefits of “E-banking” and ‘M-banking’?

Answer:

In order to use the facilities of e-banking, the person should have a computer with an internet connection and for mobile banking, a smart phone with an internet connection.

3. Answer the following questions in short :

Question 1. Give the meaning of business environment and list out the factors affecting business environment.

Answer:

- Each and every business is related to several factors of the society. These factors could be economic, social, cultural, technological, political and legal. These factors include many groups like consumers, competitors, suppliers of raw materials, employees, etc. The environment created by the group of all such factors that directly or indirectly affect the business is called business environment.
- No business can operate on its own aloof from the society i.e. the factors of the society affect the business environment and hence the business.

Business environment is highly dynamic and also quite uncertain.

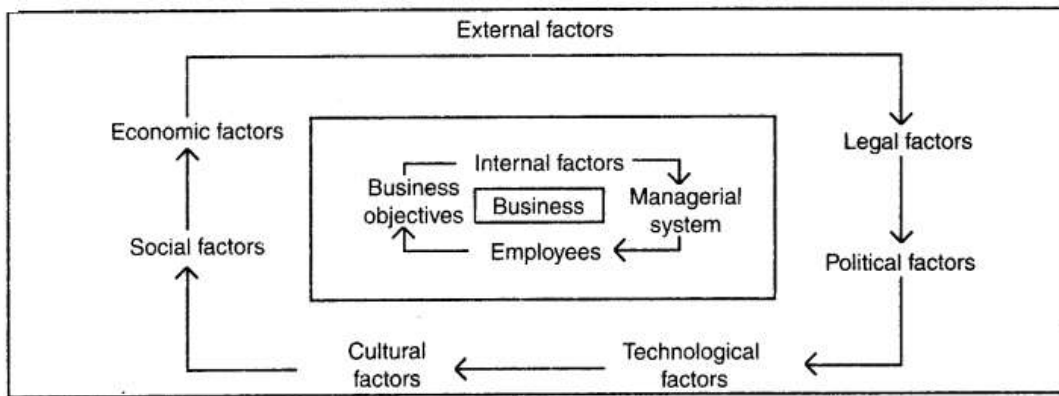
(A) Internal factors

- Business objectives
- Employees
- Managerial systems i.e. organizational structure

(B) External factors

- Economic factors
 - (a) Economic systems
 - (b) Degree of economic development
 - (c) Regional development and international integration
 - (d) National and per capita income
 - (e) Distribution of national income
 - (f) Monetary policy
 - (g) Fiscal policy
 - (h) Other factors
- Social factors
- Cultural factors
- Technological factors
- Political factors
- Legal factors





Question 2. Why is continuous study of business environment required?

Answer:

Continuous study:

- Business houses direct the managerial teams to keep a track of business environment. Large business units also carry out several studies such as market research, product and consumer satisfaction, preference, etc.
- These studies help the units to increase their market size and profit.
- Study of business environment also helps the manager to understand future trends like situation of capital market or future demand for the products produced by the business. The business unit can then plan accordingly for its products and services.

Example:

Information technology based companies need to continuously study new software and hardware coming up in the market and update their own products.

Question 3. Give the meaning of economic factors affecting business environment and state the aspects included in it.

Answer:

- Economic factors are the fundamental data about the market and economy taken into consideration when an investment or business value is calculated.
- The economic factors of a country play a major role in deciding the special features or limitation of its economy or society.
- The size and the nature of business development are also dependent on economic factors prevailing in the nation.

Following aspects (economic factors) affect the business environment , of the country:

- Economic system
- Degree of economic development
- Sectorial growth and inter-sectorial combinations
- National income and per capita income
- Distribution of national income

- Monetary policy
- Fiscal policy

Question 4. State the social factors affecting business environment.

Answer:

Social factors include religion, caste, sect, social norms, ideologies, etc. that exists in a particular society.

Question 5. Which political factors are affecting business environment?

Answer:

Factors related to government and financial ideologies of the ruling party.

Question 6. Give the meaning of liberalization.

Answer:

The movement of business and trade from a controlled to an open and free system is called liberalization.

Question 7. What is privatization?

Answer:

The transfer of control and management of public sector enterprise to private sector or say, the process of passing on the ownership and management of public sector unit to private firms is called privatization.

Question 8. Why is globalization important?

Answer:

- Globalization plays a major role in development of a country.
- Economy of an undeveloped country or an underdeveloped country can be boosted through globalization. On the other hand, such countries can get the benefit of innovative and technologically advanced products of developed countries. This way economy of developed countries, also grow.
- Globalization enables large scale production
- Consumers get improvised, technically upgraded product at an economical price.
- Opportunities of employment generation
- Consumers get quality products and service at a low price
- Infrastructure facilities rise rapidly
- Education level increases, industries grow, unemployment reduces

4. Answer the following questions in brief :

Question 1. Explain the meaning and importance of business environment.

Answer:

- Each and every business is related to several factors of the society. These factors could be economic, social, cultural, technological, political and legal. These factors include various groups like consumers, competitors, suppliers of raw materials, employees, etc. The environment created by the group of all such factors that directly or indirectly affect the business is called business environment.
- No business can operate on its own aloof from the society i.e. the factors of the society affect the business environment and hence the business.
- Business environment is highly dynamic and also quite uncertain.

Question 2. Give the meaning of economic factors affecting business environment and explain them in detail.

Answer:

- Economic factors are the fundamental data about the market and economy taken into consideration when an investment or business value is calculated.
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- The size and the nature of business development are also dependent on economic factors prevailing in the nation.

Following aspects (economic factors) affect the business environment , of the country:

- Economic system
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- Distribution of national income
- Monetary policy
- Fiscal policy

Question 3. Write notes on social and cultural factors affecting business environment.

Answer:

Effect of social factors on business environment:

- All the business activities originate, grow and end in the society. So naturally, society plays a major role in the environment it gives for the business activities.
- A business activity can never be separated from the society. Society represents groups of people, social institutions, social traditions, etc.



- The society of a nation constantly evolves and hence is dynamic in nature. As a result, the lifestyle, preferences and practices also keep on changing. All these factors change the business environment too.
- Beliefs and ideologies of people cannot remain same throughout. So, with time people give importance to their decisions, ideologies and rituals to achieve their development.
- Before producing several type of products the producer needs to consider religion, caste, sect, social norms, ideologies, etc. that exists in a particular society. The decision for the economic activity will be largely affected by these parameters.
- For example, if the society is quite conservative with respect to clothing, then the producer should not produce very bold clothes else he will face loss.
- The society or a section of society which does not restrict itself to all these social constraint develops much faster. People of such societies are open to new ideas and are ready to accept new products. As a result, business activities have a higher chance to innovate and expand.

Effect of cultural factors on business environment:

Factors like, traditions, practices, life style, habits etc. are part of cultural factors. These factors affect the decisions that a business unit takes.

- If the business management ignores the cultural factors prevailing in a society, there are high chances for the business to fail.
- History has recorded several examples where in companies having strong management have failed by neglecting cultural factors. And at the same, time various products which are not economically acceptable have become acceptable because of cultural factors and they have become successful.
- Cultural factors are constantly changing and these changes are constant and periodical.

Question 4. What is liberalization? What steps are taken by the Indian government as a part of liberalization?

Answer:

- The movement of business and trade from a controlled to an open and free system is called liberalization. In other words, liberalization is the removal of certain restrictions laid on private business units.
- In India, there were several restrictions on private business units between the year 1947 and 1991.
- In July, 1991, the government declared the policy of liberalization and started removing several restrictions phase wise so that business units could trade freely and prosper.
- In certain sectors, controls have been removed completely or to a maximum extent.

Effects of Liberalization (Steps taken by the Indian government):

1. The government removed barrier of foreign direct investment (FDI) in Indian industries. The government also increased the limit of FDI which was quite low before. Moreover, to attract foreign investors and businessmen, various economic and non-economic incentives and exemptions are being given.
2. To attract more foreign investments in Indian equity market, the procedure of purchase and sale of shares have been made completely transparent by taking various steps. Dematerialization (DEMAT) service has been introduced to convert the physical shares in electronic form. Due to this the purchase and sale of shares and the transactions of money involved therein became more transparent. The procedure of trading has been developed as per international norms.
3. Government took several steps to make the tax structure simpler and transparent. Procedure for sales tax and excise duty were simplified. Recently the government removed sales tax and excise duty and introduced a common tax called GST (Goods and Service Tax). Introduction of GST has simplified the tax structure and made it more transparent.
4. India introduced a new symbol of ₹ for its currency so as to certify Indian currency. Indian currency (INR) is given few reliefs under certain terms and conditions in forex market.
5. Before liberalization, most industries were dependent on licenses that they had to procure from the government by undergoing a very tedious and time consuming procedure. After 1991, the government removed the License Raj (License System) and made the registration of new firms quite simple.
6. The government makes several efforts to increase the export. These include giving various incentives to Indian industries to promote exports and removing several import duties.
7. Foreign Exchange Regulation Act (FERA) is cancelled and Foreign Exchange Management Act (FEMA) has been introduced. Under FEMA, the government diverts the foreign exchange towards the development of trade and commerce of our country.
8. Various changes have been made in Monopolies and Restrictive Trade Practices Act (MRTP Act) and a number of relaxations have been given in it. However, restrictions are still there to control unethical business practices.
9. The Reserve Bank of India has given freedom to various banks to decide their deposit and lending rate of interest, subject to certain conditions.
10. Imports of goods and services and payment of foreign exchange have become easier. It is now quite easy to avail foreign exchange for the purpose of foreign tours, sending children for foreign education or for the purchase of property in the foreign country.



Question 5. What is privatization? Write a note on effects of privatization.

Answer:

Privatization:

The transfer of control and management of public sector enterprise to private sector or say, the process of passing on the ownership and management of public sector unit to private firms is called privatization.

Advantages and disadvantages of privatization:

(A) Positive effects of privatization:

- Rise in production efficiency
- Absence of political interference
- Improved quality goods and services
- Systematic marketing
- Use of modern technology
- Hierarchical set-up for accountability
- Creation of competitive environment
- Advancement in research and development
- Advancement in modernization and innovation
- Maximum utilization of factors of production
- Growth of infrastructural facilities

(B) Negative effects of privatization:

- Exploitation of employees
- Misuse of powers by top management
- Unequal distribution of income and wealth
- Absence of job security
- Priority to profit
- Consumer exploitation, etc.

5. Answer the following questions in detail :

Question 1. Give the meaning of business environment and state the importance of the study of business environment.

Answer:

- Each and every business is related to several factors of the society. These factors could be economic, social, cultural, technological, political and legal. These factors include various groups like consumers, competitors, suppliers of raw materials, employees, etc. The environment created by the group of all such factors that directly or indirectly affect the business is called business environment.
- No business can operate on its own aloof from the society i.e. the factors of the society affect the business environment and hence the business.
- Business environment is highly dynamic and also quite uncertain.



Importance of business environment:

1. Advantage of early entry:

- By studying business environment, the business unit can understand market opportunities in a better way and hence it becomes easy to introduce the product in the market.
- If the producer is well aware, he may update products well before his competitors, and earn high profit.

2. Sensitivity of the management:

- In today's time, the management has become quite sensitive towards the factors affecting business environment.
- Since profit is the main objective of every business, a constant study of factors affecting business increases the profitability.

3. To grab opportunities:

- Business environment provides various opportunities. If one can understand and focus properly then the opportunities can be grabbed and profit can be increased.
- For example, there is a continuous rise in the prices of petrol and diesel. Here lies the opportunity to develop either fuel efficient vehicles or vehicles that work on electric or solar power.

4. Identifying dangers:

- The business environment is highly dynamic i.e. it changes continuously. Hence, there is always risk for the producer for acceptance of his product in the market.
- If the producer can identify such dangers well in advance, he can bring necessary changes and save his product line.

5. Helpful in policy decisions:

- Understanding the business environment helps in deciding correct business policies.
- For example, initially, the government companies used to take care of insurance business, but in 1991, the government changed its policy and allowed private companies to enter into insurance business.
- Government saw that the business was expanding in India and it became quite important to expand insurance services so that people could do business with ease.
- Later, the government also allowed foreign direct investment in private Indian insurance companies. This further allowed various new business houses to enter in the field of insurance.

6. Continuous study:

- Business houses direct the managerial teams to keep a track of business environment. Large business units also carry out several studies such as market research, product and consumer satisfaction, preference, etc.
- These studies help the units to increase their market size and profit.
- Study of business environment also helps the manager to understand future trends like situation of capital market or future demand for the products produced by the business.

Question 2. “Business environment creates opportunities as well as obstacles” – Explain.

Answer:

- The environment created by the group of all such factors that directly or indirectly affect the business is called business environment.
- Business environment is dependent on economic, social, cultural, technological, political and legal factors. These factors include many groups like consumers, competitors, suppliers of raw materials, employees, etc.
- The business environment created due to these factors give rise to opportunities as well as obstacles.

Let us study them:

(A) Opportunities created by business environment:

- If the country follows capitalistic type economic system, it means that the country will adopt a policy of free trade. In this system, the government allows the producer to take all the major decisions with respect to production and distribution. The business unit can take advantage of this policy.
- Government implements several schemes for the growth of the three major sectors such as agriculture, industries and service. These schemes open new doors of growth and opportunities.
- As the developing country grows, industries such as transport, communication, banking and insurance, etc. also get boosted. New employment is generated and national income increases.
- When the national income increases, demand for luxurious and prestigious products increase. This creates opportunities for market of such products.
- With the advancement of society, people's preference, taste and adaptability towards new goods increase. This gives rise to new markets and hence opportunities.
- If changes in the monetary policy are positive, the demand for capital for new businesses, new house, etc. increases. Also, opportunities for steel, cement, banking and insurance, etc, industries increase.
- Ruling parties can pass certain acts favourable to the society and industry. These acts create business opportunities. For example, development of public infrastructure, cleanliness drive, moving to eco-friendly products, etc. all create new opportunities.



(B) Obstacles created by business environment:

- In socialist economy, the government controls and regulates the trade. In this system all major decisions are taken by the government. Individuals do not have a major role to play. Such a business environment is a hindrance to innovation and efficiency.
- The government gives various subsidies in the agriculture sector. As a result, people tend to remain in agriculture and do not move to other sectors. This hinders the employment rate of other sectors. Moreover, the capital distributed as subsidies could be used for important projects in other sectors.
- As the country develops, the business environment rises and shifts from agriculture to industries and finally to service. However, it is important that the country maintains a fine balance between these three sectors. Many a times, the balance gets disturbed and the other sectors do not get proper attention.
- Rise in national income increases demand for better and luxurious products. But, if the income is unequally divided then it leads to class difference and social conflicts.
- If the political parties are biased and slow in decision making, the decisions taken become obstacle for the growth of the nation.

Question 3. State the technological factors, political factors and legal factors affecting business environment.

Answer:

Effect of technological factors on business environment:

- Technological factors affect the production decision and hence the business environment of a region.
- Based on the technological factors, the producer needs to decide as to what technology should he adopt to produce goods so that he can deliver the best possible products and increase profit.
- Research and Development (R & D) takes place at a very fast rate across the world. This leads to constant improvement in technology of production and processing methods. The country has to adopt these changes else it will not be able to compete the international market and the businesses will start making losses.
- For example, there was a time when India believed that use of machines should be kept at its lowest to enable employment generation. But India had to adopt fast mechanization owing to liberalization of industrial policy.
- Many industries have started using robotic machines. Using such machines products can be produced much faster than too with very high precision.
- In banking sector, internet banking and mobile banking have become quite common now. People use these technologies to save time and effort. These technologies have given rise to a new level of business environment where the need for development of banking software, mobile applications, etc. have increased tremendously.



Political factors affect business environment:

- Factors related to government and financial ideologies of the ruling party are known as political factors.
- The ruling parties frame various laws in the nation. They also establish several policies to expand trade and commerce in the nation. How well the party does all these tasks decide the business environment of the nation.

Example:

- In West Bengal, there was a large opposition for Nano car project of Tata group. This opposition was so fierce that Tata group had to leave West Bengal. Gujarat government took this as opportunity and provided various incentives to the Tata group to establish their Nano car production plant at Sanand near Ahmedabad.
- Tata agreed and as a result, several ancillary industries also came up at Sanand along with Tata. This is a fine example of active role of the political party to grab the opportunity and establish positive business environment.

Legal factors affecting business environment:

- Acts approved by the Parliament and/or the Assembly which then become laws become the legal factors that affect the economy of the nation. Every business unit need to follow these acts.
- In order to boost business as well as maintain social welfare, the government passes various laws.
- Industrial Development and Regulation Act 1951, Essential Commodities Act 1955, Trade Mark Act 1969, Standard of Weights and Measures Act 1969, Consumer Protection Act 1986, etc. are few examples of trade related laws passed by the government.
- As per the need of the hour, the government also amends the laws and at times removes the unnecessary laws. For example, when the government amended Monopolies and Restrictive Trade Practices (MRTP) Act 1951, several Indian companies could grow and make themselves at par with international companies.

Question 4. What is privatization? State the factors which led to privatization and explain the favourable effects of privatization on the Indian economy.

Answer:

Privatization:

The transfer of control and management of public sector enterprise to private sector or say, the process of passing on the ownership and management of public sector unit to private firms is called privatization.



Privatization in India:

- When India became independent, its economic condition was very bad. To grow the economy rapidly it was important that large scale industries be set-up. However, the private sector was not ready to invest in heavy industries fearing lesser and slower returns against heavy investment.
- So, the government decided to encourage public sector industries. Government had a vision that public sector would help in creating necessary infrastructure in the nation for other industries, trade and commerce.
- With all these factors and visions, production of goods and services through public sector enterprises started in India. Government gave prime importance to public sector in its various five year plans.
- After 1991, India decided that it will allow private companies to take over sick public sector companies as well as to venture into those industries which were till then only under public sector.
- As a part of privatization, the structure of continuously loss making units was changed and few very sick units were closed.
- Many public sectors offered equity shares to the general public and increased public private partnership.
- When shares are sold to private enterprise, it is known as privatization. When public sector units offer its capital for the participation of general public, it is known as disinvestment. Government of India has started separate ministry ' for disinvestment.

Privatization was also done to increase the efficiency of industries and to achieve targets which the public sector was not able to.

Reasons for inefficient public sector units include:

- Bureaucracy
- Obsolete technology
- Rising corruption and bribery
- Absence of accountability
- Growing influence of labour unions
- Political interference, etc.

Positive effects of privatization:

- Rise in production efficiency
- Absence of political interference
- Improved quality goods and services
- Systematic marketing
- Use of modern technology
- Hierarchical set-up for accountability
- Creation of competitive environment



- Advancement in research and development
- Advancement in modernization and innovation
- Maximum utilization of factors of production
- Growth of infrastructural facilities

Apart from this, there are also several negative effects of privatization but still, government is promoting it.

- Under privatization, the government has given a number of public sector units to private sector. The government owns 51 % or more equity capital in these units and rest percentage is sold either to private sector or general public.
- Thus, the period in between 1951 to 1991 was dominated by public sector but after 1991 private sector marched ahead of public sector and is still dominating.

Question 5. Give the meaning of globalization and explain it in detail.

Answer:

- When a country permits foreign companies to do business in their domestic economy and allows domestic companies to do business globally, it is known as globalization.
- Earlier, every country used to protect its industries from foreign competition and did not accept globalization.
- Later, the companies of developed countries established industries or started selling their goods and services in developing and undeveloped countries. Subsequently, developing and under developed countries also allowed their companies to do business in other countries.
- Globalization is a two way activity. The way multinational companies get permission to start industries in other countries, in the same way domestic companies can also seek permission to do business in developed countries. This way the industries get international exposure.
- In order to develop business and industry of the entire world, an arrangement and specific rules and regulation was needed at the international level. With this objective, the World Trade Organization (WTO) was formed.
- WTO makes effort to see that trade between nations take place smoothly as per the guidelines.
- It enables its member countries to eliminate the barriers that arise in the path of globalization. India is a member of WTO since its inception and hence the process of globalization has become slightly easier for India.
- WTO was established from GATT (General Agreement on Tariffs and Trade). As a part of the policy of globalization, India has accepted the GATT. It has also accepted foreign products and services to enter the country subject to certain conditions.
- Globalization has enabled a fast growth of service sector.
- Services such as banking, insurance, transportation, communication grew rapidly and also crossed countries.
- Owing to globalization, the world has now become a global village. India has also globalized quite rapidly.



Question 6. Give your views on the positive and negative effects of globalization on the Indian economy.

Answer:

Positive effects of globalization:

- Large scale production
- Increased competition leads to greater consumer protection
- Consumers get improvised, technically upgraded product at an economical price
- Opportunities of employment generation
- Consumers will be able to use quality products and service at a low price
- Speedier generation of infrastructural facilities in the country
- Increased importance of education has led to increase in spread of education
- Easier to set up new industries
- The whole world is becoming a global village
- Freedom from political bureaucracy and red tapism.

Negative effects of globalization:

- Arrangement for market set-up becomes difficult and costly
- Rise in the production of luxurious goods and services at the cost of necessities
- New problems arises because of the change in human mentality
- Rise in inequalities of income and wealth distribution
- Spread of economic situation of one country or continent to other countries quickly
- Competition is at the cost of ethical values
- Larger units get more profit and small scale units experience difficulty to survive
- When the spread of education is relatively lesser than the spread of development, the competitive ability of employees become weak
- Multinational companies show more loyalty to their home country rather than – to the host country
- Internationally renowned companies influence the monetary policy of the country which is suitable to them by collaborating with the political parties.

