



## **Important Questions for Class 12**

### **Business Studies**

### **Chapter 3 - Business Environment**

#### **Very Short Answer Questions**

**1 Mark**

#### **1. What is Business Environment?**

**Ans:** Business environment refers to all the factors that are outside the control of the business enterprise but may equally affect the performance of the business. The social, political, economic, technological factors that operate outside a business forms a part of the business environment.

#### **2. Which of the sectors was given importance after independence?**

**Ans:** After independence, the private sector was given more importance than the public sector. The role of the public sector slowly declined after independence and the private sector was given a leading role.

#### **3. How have customers benefited by increased competition after liberalization and globalization?**

**Ans:** Globalization and liberalization had caused amplified competition in the market, which benefited the customers as they got a better quality and broader choice of goods and services while making a purchase.

#### **4. What do you mean by Liberalization?**

**Ans:** It is a reform which was introduced to remove unnecessary controls, licensing and government restrictions in an economy. It provides a greater autonomy to the business enterprises in decision-making and removes government interference.

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## **5. How can the firms cope up with changing technological environment?**

**Ans:** In order to cope with the shifting technological environment a firm must remain conscious about the current changes in the technological field. Thereafter they must acclimate to such change to gain the benefit of new technology. Hence, they need to keep innovating and finding new ways so as to cope with the changing technological environment.

## **6. What is meant by opportunities?**

**Ans:** Opportunity refers to the positive exterior trends that have the potential to add value to an enterprise.

## **7. What do you mean by Globalization?**

**Ans:** Globalization is the word used to define the increasing interdependence of the world's economies, cultures, and populations, brought about by cross-border trade in goods and services, technology, and flows of investment, people, and data. Hence, Globalisation means to open ways for the various economies of the world to participate in the making of a global economy.

## **8. Which policy of the Indian Government has moved India towards globalization?**

**Ans:** The Industrial Policy of 1991.

## **9. What do you mean by Innovation?**

**Ans:** The actions required to create new ideas, procedures or products which when executed lead to a positive effective change is known as innovation. Innovation involves the practical application of an inventive act.

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

**Ans:** Liberalization under the new economic policy of 1991 was introduced to free Indian business from unnecessary controls and restrictions.

**11. What do you mean by disinvestment?**

**Ans:**It means to transfer the ownership from the public sector to the private sector. It is an action taken by the government for privatization. In this the government's stake is diluted in a public enterprise.

**12. Give one measure taken by Indian Government to introduce liberalization.**

**Ans:** Under liberalisation, the requirement of licensing was abolished except for five industries

- o liquor,
- o cigarette,
- o defense equipment,
- o industrial explosives, and
- o dangerous chemicals.

**Short Answer Questions**

**2 Marks**

**13. Explain how does the understanding of business environment help the management in the following:**

**A. Tapping useful resources; and**

**Ans:** Business utilizes the resources of the external environment as inputs like finance, labour etc., and supplies its output to the environment in the form of goods and services etc. Also, understanding of the business environment helps the firm to

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track the useful resources available in the environment and convert them into goods and services.

**B. Coping with rapid changes.**

**Ans:** The business environment is extremely dynamic so the managers need to develop strategies not only to cope with the changes but also to use them as their strengths to improve their market shares. In order to proficiently cope with the changes, managers must understand the environment and should adopt suitable courses of action at the right time. It helps management in becoming more aware about the shifting needs of customers. As a result, they are able to respond to such changes efficiently.

**14. An environmental conscious multinational company "AXN Ltd." follows certain well defined business principles that result in minimizing employee turnover. Following are some of the important environmental factors followed by 'AXN Ltd.'**

- 1. Honour the law of every country in which it operates.**
- 2. Respect the culture and customs of all nations.**
- 3. Provide clean and safe products to enhance the quality of life throughout the world**
- 4. Develop a culture in the company that enhances individual creativity and teamwork while honouring mutual trust and respect between management and labour.**

**From the above:**

**i) Identify and state any one general principle of management and any one dimension of the business environment.**

**Ans: Principle of management: Esprit de corps.**

As the culture of the company focuses on the developing and honouring of mutual trust and respect between management and labour, this is the principle followed by the company. Another principles can be the principle of initiative and stability of personnel.

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**Dimension of business environment: Legal environment :**

It includes all the legislations passed, administrative orders issued, court judgements or decisions taken by government or its related offices.

As in the case, it is stated that the firm was very particular about honouring the law of each country in which it operates. Other dimensions can be social and cultural environment, ecological environment.

**ii) Values being conveyed:**

- a. Respect for law
- b. Cleanliness and hygiene
- c. Concern for society and employees

**15. ‘Accent Electronics Ltd.’ was operating its business in Malaysia. The company started exporting its products to India when the Prime Minister announced relaxation in import duties on electronic items. The company appointed retailers in India who had direct on-line links to the suppliers to replenish stocks when needed.**

**Identify and explain the dimensions of the business environment discussed in the above case.**

**Ans:** The dimensions of the business environment discussed in the above case are as follows.

- **Political Environment:** It includes political stability such as political leadership, political stability, practices of the ruling party, policies of the government etc. For example, change in government, or unstable government.

**Quotation:** “Prime Minister allowed relaxation in import duties on electronic items”

- **Technological Environment:** It consists of forces relating to scientific improvements and innovations, which lead to better production techniques and methods to produce goods. For example, shift from books to e-books, telephones to touch screen mobile phones.

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**Quotation:** “The company appointed retailers in India who had direct on- line links to the suppliers to replenish stocks when needed”

**16. With change in the consumption habits of people, Neelesh, who was running a sweets shop, shifted to the chocolate business. On the eve of Diwali he offered chocolates in attractive packages at reasonable prices. He anticipated huge demand and created a website chocolove.com for taking orders online. He got a lot of orders online and earned huge profit by selling chocolates.**

**Identify and explain the dimensions of business environment discussed in the above case.**

**Ans:** The dimensions of the business environment that have been discussed here are as follows.

- **Social Environment:** Social environment represents the customs and traditions, values, culture, social trends, beliefs, ethics of society in which business operate. For example, religious celebrations provide business opportunities to many enterprises such as those producing sweets, decoration items, gifts etc. Similarly, in India a change in social trend towards western lifestyle has increased the demand for western wear, consumption of fast food, etc.

**Quotation:** “Change in consumption habits of people.”

- **Technological Environment:** It consists of forces relating to scientific improvements and innovations, which lead to better production techniques and methods to produce goods. For example, shift from books to e-books, telephones to touch screen mobile phones.

**Quotation:** “created a website chocolove.com for taking orders online.”

**17. Explain the role of political environment in shaping the business.?**

**Ans:** Political environment includes political stability such as political leadership, practices of the ruling party, policies, rules and regulations of the government etc.

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- Political stability builds confidence among the business community while political instability may bring uncertainty in business activities.
  - Hence the political environment holds the power to positively or negatively impact the business and its activities.
  - For example, if the government keeps on changing, and there is no political instability in the country, then with each change in the government, the ruling party will keep on bringing its own policies in the country, causing disruptions and losses in the activities of the business.
  - This is because a business functions within the framework of the political environment, and hence, when the government and its policies change, businesses are required to understand and follow such changes as well.
  - Factors like taxation policy and foreign trade policy affects a business in unthinkable ways.
  - While on one hand, a progressive and constructive change in these policies bring a positive change in the business, on the other hand, unstable, and unthought of changes in these policies disrupts the working and profitability of that business.
  - For example, after globalization, the Government of India allowed many companies to enter the Indian market to give a boost to the different industries like food processing industry etc. That paved the way for the entry of multinationals in India on a large scale.

**18. A recent rate cut in the interest on loans announced by the Banks encouraged Amit, a science student of Progressive School to take a loan from State Bank of India to experiment and develop cars to be powered by fuel produced from garbage. He developed such a car and exhibited it in the Science Fair organized by the Directorate of Education. He was awarded first prize for his invention.**

**Identify and explain the dimensions of the business environment discussed in the above case.**

**Ans:** The dimensions of the business environment discussed in the above case are as follows.



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- **Economic Environment:** It refers to all those factors and forces that have an economic impact on the business activities. Key economic factors include inflation, money supply, price level, income level, interest rates etc. For example, increase in inflation rates result in fall in disposable incomes and as a result the demand for products falls.

**Quotation:** “A recent rate cut in the interest on loans announced by the Banks ”

- **Technological Environment:** It consists of forces relating to scientific improvements and innovations, which lead to better production techniques and methods to produce goods. For example, shift from books to e-books, telephones to touch screen mobile phones.

**Quotation:** “developed such a car and exhibited it in the Science Fair organized by the Directorate of Education. He was awarded first prize for his invention. ”

#### 19. Enumerate the benefits of understanding the business

**environment. Ans:** The benefits of understanding business environment

are:

- **Identification of Opportunities:** It enables the firm to identify opportunities and get the first mover advantage. The positive external changes provide opportunities to a business organisation to improve its performance.
- **Identifying Threat:** It helps the firm to identify threats and provide early warning signals. Adverse changes in the external factors act as ‘threats’ to the business which hinders performance. Early identification of threats helps managers to make strategies to convert threats into opportunities.
- **Tapping Useful Resources:** Business utilizes the resources of the external environment as inputs like finance, labour etc., and supplies its output to the environment in the form of goods and services, taxes, etc.
- **Coping with Rapid Changes:** The business environment is extremely dynamic so the managers need to develop strategies not only to cope with the changes but also to use them as their strengths to improve their market

shares.

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- **Planning and Policy Formulation:** Clear understanding and analysis of the business environment help businesses to formulate its future plans and strategies to cope with all the external changes.
  - **Improves Performance:** The continuous monitoring of the business environment and changing business practices from traditional methods help business in improving their present performance and also continue to retain its market position in the long run.

**20. Business environment or Environmental Scanning helps in the identification of threats and early warning signals." Explain?**

**Ans:** Adverse changes in the external factors act as ‘threats’ to the business which hinders a firm’s performance. Early identification of threats helps managers to make strategies to convert threats into opportunities.

Environmental scanning helps an enterprise to recognize valuable information about the market and environment in advance, which can be used to prepare a firm for facing likely challenges.

For example, if there is a chance of an MNC entering an Indian market, then the Indian managers of firms dealing with the similar product have to consider it as a warning signal, and an upcoming threat. In such cases, the manager will take every possible action, such as improving quality of the product, cost reduction, better customer service, etc., to face the probable challenge arising from the entrance of an MNC.

**21. Mention four examples of acquisitions and**

**mergers. Ans:** Four examples of mergers and acquisitions

are:

- Disney, Pixar and Marvel.
- Google and Android
- Exxon and Mobil.
- Tata and Corus Steel.

**22. Metlapp Networks and Technologies Ltd. is a leader in technology innovation in the United States, creating products and solutions for connecting the world. It has a large research and development team which invented the first smartwatch, named as W-7. The watch besides showing the time also monitors a few health parameters like heart beat, blood pressure etc. While in search of markets abroad, the company found that in India, the reform process was underway with the aim of accelerating the pace of economic growth. The company decided to take advantage of simplified export procedure and removal of quantitative as well as tariff restrictions in India.**

**It set up its office in Jamnagar with a view to capture the Indian market. In a short span of time, the company emerged as a market leader. Success of the company attracted many other players to enter the market. Competition resulted in reduction in prices, thereby benefiting the customers.**

**(a) In the above paragraph, two major concepts related to government policy have been discussed. Identify and explain these concepts.**

**Ans:** The two concepts related to the government policy discussed in the question are Liberalization and Globalization.

- **Liberalization:** It is a reform which was introduced to remove unnecessary controls, licensing and government restrictions in an economy. It provides a greater autonomy to the business enterprises in decision-making and removes government interference.

**Quotation:** “take advantage of simplified export procedure and removal of quantitative as well as tariff restrictions in India. “

- **Globalization:** Globalization is the word used to define the increasing interdependence of the world's economies, cultures, and populations, brought about by cross-border trade in goods and services, technology, and flows of investment, people, and data. Hence, Globalisation means to open ways for the various economies of the world to participate in the making of a global economy.

**Quotations:** “Metlapp Networks and Technologies Ltd. is a leader in technology innovation in the United States, creating products and solutions

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for connecting the world.“ and “It set up its office in Jamnagar with a view to capture the Indian market. “

**(b) Also, explain briefly any three impacts of these concepts on Indian business and industry.**

**Ans:** The three major impacts of these concepts on Indian business and industry were:

- **Increased Competition:** Liberalisation and Globalisation added ease in conducting business as well as increased the entry and participation of new firms in the industry, thereby intensifying the competition in the market. Due to this increased competition, companies now focus on adding value to their products, and reduce the prices so as to attract more and more customers. Ultimately, customers get benefited by a wider choice of products, and reduced prices.
- **Higher Customer base:** Liberalisation and Globalisation paved the way for technological changes in the environment. As with more research and development, creativity, and innovation, high-end technological products could be made available that would ultimately enlarge the customer base of the product. In the case as well, the digital watch and its high-end features helped the company in becoming the market leader by capturing a huge customer base in the Indian market.
- **Business policies:** With the change in government policies, businesses also have to alter the way in which they perform their activities. Such positive change in policies helps the business in tapping opportunities by altering the way and methodology with which they perform business. Because, if a business would not make changes inline with changes made by the government, it could not survive in the market in the long run. As in the case, change in government policies of India was immediately implemented and taken benefit by the company, and they took actions accordingly.

**23. Social environment of business is important for a business enterprise". Explain ?**

**Ans:** Social environment represents the customs and traditions, values, culture, social trends, beliefs, ethics of society in which business operates.

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- A business exists within an external social environment, as well as its own internal social environment. A business is a part of the society in which it operates, it takes resources from the society, and provides goods and services in return.
  - Social environment includes factors, like taste and preferences of customers, trends in the market, consumption habits, the language and culture of people in the society etc. The management needs to have a constant and vigil check on the changes in the social environment, so as to exploit the right opportunities and to mitigate prospective threats.
  - Cooperation and coordination between a firm and the society will flourish as well as add value to an enterprise, whereas failure to adopt changes of social environment will lead to the shift of customers from their firm to the other firm. This shift of consumer intensely impacts the long term growth and survival of business.
  - For example, with greater awareness among consumers about their rights, businesses are more concerned about the quality of goods they sell, hence they are more cautious regarding the quantity, quality and pricing of the goods.
  - Also, the change in consumer habits led to the inclination of consumers towards healthy products. This has created abundant opportunities for businesses to add and create products that could match the needs and preferences of the consumers.
  - Moreover a business conforming to social values, and ethics in business is likely to be more beneficial than a business who violates the ethics and social principles.

Therefore, we can say that a social environment is very important for a business.

**24. Enumerate any ten Positive impacts of liberalization and globalization. Ans:** The positive impacts of liberalization and globalization

are as follow:

**A. Increased Collaborations:** One characteristic of globalisation is the encouragement of entrepreneurial collaborations in order to ensure fast

modernisation, development, and technical improvement.

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**B. Process simplification:** Liberalisation has simplified the procedures of import and exports. Hence simplification in regards to registration, setting up of businesses, licensing was made possible. This leads to higher motivation, and the saving of time, energy and money on the part of business enterprises.

**C. Increased competition:** Increase in the number of Indian firms and entry of foreign companies has increased competition. Such increase in competition has benefited both, the firm as well as the customers.

**D. More demanding customers:** Increase in the number of enterprises gives consumers wider choice of products leading to rise in expectations and demands.

**E. Rapidly changing technological environment:** Fast changing technology requires companies to install the latest machinery, adopt latest techniques of production leading to an increase in investments in the business. Hence, LPG made the firms aware of the fact that only change could make them survive in the competitive market.

**F. Necessity for change:** With change in government policies business had to modify their policies and practices, invest in research and development, innovation etc.

**G. Need for developing human resource:** With change in technology, business enterprises need to educate and train their staff so that they are competent to handle changes, thus enhancing the quality of the labor force.

**H. Market orientation:** With increased awareness among consumers business enterprises had to shift the product oriented operations to market oriented operations.

**I. Loss of budgetary support to the public sector:** Public sector had to run in competition with the private sector. Therefore, they had to organise their own resources and functions efficiently.

**J. Opportunities:** It enables the firm to identify opportunities and get the first mover advantage. The positive external changes provide opportunities to a business organisation to improve its performance. Positive change in policies helps the business in tapping opportunities by altering the way and methodology with which they perform business.



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K. **Inflow of foreign capital:** With globalisation, work and trade has been made possible outside the national boundaries. This benefited the country in increased exports and the inflow of foreign capital.

25. **Explain any five negative impacts of liberalization and globalization.** **Ans:** Following are the negative effects of liberalization and globalization.

- **Threats from multinational companies (MNCs) :** With the arrival of multinationals it is becoming difficult for small and medium business units to even survive. The entry of multinationals in the Indian markets act as a threat for the domestic firms. There have been instances, where the entry of new MNCs have led to the exit of domestic firms from the market.
- **Destabilization of protected environment:** With easier entry of multinational companies, the Indian business environment is fast losing its protective shield. Even manufacturers of Maruti cars could not retain their market share and had to remodel their products and announce heavy price reductions from time to time.
- **Decline in public sector:** Public sector is losing markets and their capacity utilization has declined, hampering the pace of the country's technological and economic growth.
- **Sellers' market turned into buyers' market:** With the entry of foreign goods and services, shortage of goods, which was a boon for the sellers, has now turned into surplus. Resulting in lower revenue and profits. Buyers dominate the market, as they are free to make choices.
- **Tremendous redistribution of economic power and political power:** Tremendous redistribution of economic power and political power leads to destabilising effects on the economy. Despite the continuing emphasis on promoting global prosperity and achieving a more “just world,” negative aspects of globalization remain evident in our globe.

26. **'Explain 'fiscal reforms' and 'monetary reforms' as per economic change initiated by the Government of India since 1991.**

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**Ans:** The explanations are:

### **Fiscal Reforms**

- There has been a reduction in the taxes and simplification of the structure of taxes on individual incomes since 1991. Fearing a heavy burden and complex nature of taxes, people would often evade taxes.
- Reforms have also been made in taxes levied on commodities. The Goods and Services Tax which was passed in 2016 and came to effect in 2017, was expected to generate additional government revenue and prevent tax evasion.
- Measures have been taken for the reduction in the fiscal deficit.
- Decrease in subsidies has also been made.

### **Monetary Reforms**

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

### **27. Explain any five ways in which managers have responded to changes in the business environment.**

**Ans:** Following are the ways in which managers have responded to changes in business environment:

- **Successful Conduct of Business:** The manager can successfully conduct the business operations with the timely observance of any prospective opportunity or probable threat in the business environment. The managers can take necessary action as soon as they foresee a positive and negative change, thus leading to a successful conduct of the business operations. Hence, timely action benefits the firms and managers in unthinkable ways.

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- **Diversification spree:** To face competition, and take the most benefit of opportunities, the managers are diversifying their operations in multiple fields. Such as Reliance diversifying in sectors such as telecommunication, food, petroleum etc.
  - **Chances for Growth:** By identifying the changing situations and environment, the firm can gain support and win the confidence of the consumers and others. This support will bring more chances for growth and development of the firm. Positive change in policies helps the business in tapping opportunities by altering the way and methodology with which they perform business.
  - **Brand Building:** Companies are aggressively spending money on brand building, and positioning their products in the minds of the consumers. Focus is on securing prime positions for their brands, through creative media-mix, in the minds of consumers.
  - **Labor:** Managers are changing their behavior towards labor. Labourers have also benefited from the business environment, through higher wages and other facilities like training to upgrade their skills and job enrichment.

**28. Briefly discuss the impact of government policy changes on the business and industry.**

**Ans:** The policies of liberalization, privatization and globalization by the government affect the functioning of the business enterprises.

The following points show the impact of government policy changes on the business and industry.

- **Increased Competition:** Liberalisation and Globalisation added ease in conducting business as well as increased the entry and participation of new firms in the industry, thereby intensifying the competition in the market. Due to this increased competition, companies focussed on adding value to their products, and reduce the prices so as to attract more and more customers. Ultimately, customers get benefited by a wider choice of products, and reduced prices.
- **Higher Customer base:** Liberalisation and Globalisation pave the way for technological changes in the environment. As with more research and

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development, creativity, and innovation, high-end technological products could be made available that would ultimately enlarge the customer base of the product.

- **Business policies:** With the change in government policies, businesses also have to alter the way in which it performs its activities. The government policies directly impact the functioning of the business enterprises, forcing the businesses to alter their policies accordingly. A positive change in policies helps the business in tapping opportunities by altering the way and methodology with which they perform business. Because, if a business would not make changes inline with changes made by the government, it could not survive in the market in the long run.
- **Technological Changes:** The change in government policies has lead to free entry of new firms, thus increasing market competition. Therefore, with change in government policies, businesses had to make efforts in developing and using new technology, modifying the obsolete technology, investing in research and development, innovation etc.
- **Need for Trained Personnel:** With change in technology, business enterprises need to educate and train their staff so that they are competent to handle changes, thus enhancing the quality of the labor force
- **Greater Market Orientation:** The orientation has shifted to market orientation with the intense competition taking place in the market. That is, the enterprises produce and provide the goods and services as per the demand in the market.
- **Less Budgetary Support Reliance by Public Sector Enterprises: Rather than depending on the budgetary support so as to cover the losses, the public enterprises needs to make efforts in improving its work performance, efficiency and productivity so as to successfully face the increased competition, and curb the losses.**

On the whole, the impact of Government policy changes particularly in respect of liberalization, privatization and globalization has been positive as the Indian business and industry has shown great resilience in dealing with the new economic policy.

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**29. What is meant by ‘business environment’? Explain any three features of the business environment.**

**Ans: Meaning**

Business environment refers to all the factors that are outside the control of the business enterprise but may equally affect the performance of the business. The social, political, economic, technological factors that operate outside a business forms a part of the business environment.

**Features of Business Environment**

- **Totality of external forces:** Includes every external or outside force that could impact a business organisation such as government, competitors, etc.
- **Specific and general forces:** Specific forces are the forces which directly affect a specific business organisation. General forces are those forces which pose a direct impact on the overall industry, but pose an indirect effect on a business enterprise.
- **Inter-relatedness:** The changes in general forces may result in changes in specific forces. For example, a change in the government (a political force) may lead to a change in tax rates, import-export rates (an economic force)
- **Dynamic nature:** The external forces keep changing due to constant change in technology, consumer preferences, availability of different types of raw material etc.
- **Uncertainty:** Constant changes in environment makes it difficult to predict changes in the external environment.
- **Complexity:** The interrelated and dynamic nature of external forces makes it difficult to prepare one single strategy to handle all the changes.
- **Relativity:** The impact of changes depends on business to business country to country region to region etc.

**30. Explain the dimensions of Business**

**Environment: Ans:** The dimensions of business

environment are:

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- **Economic Environment:** It refers to all those factors and forces that have an economic impact on the business activities. Key economic factors include inflation, money supply, price level, etc. For example, increase in inflation rates result in fall in disposable incomes and as a result the demand for products falls.
  - **Social Environment:** Social environment represents the customs and traditions, values, culture, social trends, beliefs, ethics of society in which business operate. For example, with greater awareness among consumers about their rights, businesses are more concerned about the quality of goods they sell, or the change in consumer habits led to the inclination of consumers towards healthy products.
  - **Political Environment:** Political environment includes political stability such as political leadership, practices of the ruling party, policies, rules and regulations of the government etc.
  - **Legal Environment:** It includes all the legislations passed, administrative orders issued, court judgements or decisions taken by government or its related offices. For example, all cigarette packets must carry a warning 'smoking is injurious to health'.
  - **Technological Environment:** It consists of forces relating to scientific improvements and innovations, which lead to better production techniques and methods to produce goods. For example, shift from books to e-books, telephones to touch screen mobile phones.