



## **Business Studies**

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

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

##### **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.

##### **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 New Economic 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.

**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**

### **introduceliberalization.**

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

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

### **Short Answer Questions**

**13. Explain how does the understanding of business environment help themanagement 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 goodsand services etc. Also, understanding of the business environment helps the firm to 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 followedby '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. Other principles can be the principle of initiative and stability of personnel.

**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.

**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.

- 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 areas follows.

- **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. 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.

### **Long Answer Questions**

**20. 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 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 pave 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 it performs its 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.

**21. 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.

- **Explain the dimensions of Business**

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

- **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.

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