

Chapter 7: Business Environment

EXERCISE 1 [PAGES 149 - 151]

Exercise 1 | Q 1.1 | Page 149

Select the correct option and rewrite the sentence.

Business environment has tremendous impact on _____.

- business
- government
- Society

SOLUTION

Business environment has tremendous impact on **business**.

Exercise 1 | Q 1.2 | Page 149

Select the correct option and rewrite the sentence.

The new Industrial policy was formulated in _____.

- 1947
- 1951
- 1991

SOLUTION

The new Industrial policy was formulated in **1991**.

Exercise 1 | Q 1.3 | Page 149

Select the correct option and rewrite the sentence.

Changes in ruling government is an aspect of _____ environment.

- political
- technological
- economic

SOLUTION

Changes in ruling government is an aspect of **political** environment.

Select the correct option and rewrite the sentence.

Literacy level is an aspect of _____ environment.

- social
- legal
- political

SOLUTION

Literacy level is an aspect of **social** environment.

Select the correct option and rewrite the sentence.

Privatization implies reduction in the role of _____ sector.

- public
- private
- foreign

SOLUTION

Privatization implies reduction in the role of **public** sector.

Select the correct option and rewrite the sentence.

Globalization is concerned with _____ market.

- global
- local
- rural

SOLUTION

Globalization is concerned with **global** market.

Select the correct option and rewrite the sentence.

_____ means linking national economy to the world economy.

- Globalization
- Privatization
- Liberalization

SOLUTION

Globalization means linking national economy to the world economy.

Exercise 1 | Q 1.8 | Page 149

Select the correct option and rewrite the sentence.

Environment awareness provides _____ signal.

- warning
- alarming
- soft

SOLUTION

Environment awareness provides **warning** signal.

Exercise 1 | Q 2.1 | Page 149

Match the pairs.

Group 'A'	Group 'B'
A) Globalization	1) Profit motive
B) Privatization	2) 2006
C) Liberalization	3) Borderless economy
D) New economic policy	4) Service Motive
E) Social Environment	5) Internal factor
	6) Disinvestment
	7) Social Values
	8) 1991
	9) Abolishing license policy
	10) GATT

SOLUTION

Group 'A'	Group 'B'
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A) Globalization	3) Borderless economy
B) Privatization	6) Disinvestment
C) Liberalization	9) Abolishing license policy
D) New economic policy	8) 1991
E) Social Environment	7) Social Values

Exercise 1 | Q 2.2 | Page 150

Match the pairs.

Group 'A'	Group 'B'
A) Internal environment	1) Knowledge of law
B) Political environment	2) Taxation policy
C) Legal environment	3) Technology
D) Economic environment	4) Traditions
	5) WTO
	6) Controlled by business
	7) High cost
	8) Ideology of political party

SOLUTION

Group 'A'	Group 'B'
A) Internal environment	7) High cost
B) Political environment	8) Ideology of political party
C) Legal environment	2) Taxation policy
D) Economic environment	3) Technology

Exercise 1 | Q 3.1 | Page 150

Give one word/phrase/term.

Uncontrollable factors of the business environment.

SOLUTION

External business environment.

Exercise 1 | Q 3.2 | Page 150

Give one word/phrase/term.

The environmental of business that includes customs and traditions, values, social trends.

SOLUTION

Social environment.

Exercise 1 | Q 3.3 | Page 150

Give one word/phrase/term.

The process of transferring ownership of business enterprise, agency or public service from the public service to private sector.

SOLUTION

Privatisation.

Exercise 1 | Q 3.4 | Page 150

Give one word/phrase/term.

A boundary less worlds where there would be flow of goods, services, information, capital and people across nation.

SOLUTION

Globalization.

Exercise 1 | Q 4.1 | Page 150

State whether the following statement is True or False.

External factors of business environment are controllable factors.

- True
- False

SOLUTION

False

Exercise 1 | Q 4.2 | Page 150

State whether the following statement is True or False.

Business is the product of different environmental factors.

- True
- **False**

SOLUTION

True

Exercise 1 | Q 4.3 | Page 150

State whether the following statement is True or False.

Business and environment are inseparable parts.

- True
- False

SOLUTION

True

Exercise 1 | Q 4.4 | Page 150

State whether the following statement is True or False.

There is no benefit of globalization on Indian economy.

- True
- False

SOLUTION

False

Exercise 1 | Q 4.5 | Page 150

State whether the following statement is True or False.

New economic policy promoted the liberal economic policy.

- True
- False

SOLUTION

True

Exercise 1 | Q 4.6 | Page 150

State whether the following statement is True or False.

There is no benefit of privatization to Indian economy.

- True
- False

SOLUTION

False

Exercise 1 | Q 4.7 | Page 150

State whether the following statement is True or False.

There is no need of consideration of the business environment factors in business.

- True
- False

SOLUTION

False

Exercise 1 | Q 5.1 | Page 150

Compete the sentence.

The term of business environment generally refers to _____

SOLUTION

The term of business environment generally refers to **external environment**.

Exercise 1 | Q 5.2 | Page 150

Compete the sentence.

_____ helps the business enterprise for overcoming challenge successfully.

SOLUTION

Business environment helps the business enterprise for overcoming challenge successfully.

Exercise 1 | Q 5.3 | Page 150

Compete the sentence.

Geographical and Ecological factors are included in _____ Environment.

SOLUTION

Geographical and Ecological factors are included in **natural** Environment.

Exercise 1 | Q 5.4 | Page 150

Compete the sentence.

Literacy is the important part of _____ Environment.

SOLUTION

Literacy is the important part of **social** Environment.

Exercise 1 | Q 5.5 | Page 150

Compete the sentence.

Stability and peace in the country includes in _____ Environment.

SOLUTION

Stability and peace in the country includes in **political** Environment.

Exercise 1 | Q 5.6 | Page 150

Compete the sentence.

Indian political system comprises _____ vital institutions.

SOLUTION

Indian political system comprises **three** vital institutions.

Exercise 1 | Q 5.7 | Page 150

Compete the sentence.

Limited involvement of government in public sector refer to _____.

SOLUTION

Limited involvement of government in public sector refer to **privatization**.

Exercise 1 | Q 5.8 | Page 150

Compete the sentence.

Integration of economy and society through cross country is called as _____.

SOLUTION

Integration of economy and society through cross country is called as **globalization**.

Exercise 1 | Q 6.1 | Page 150

Select the correct Option

In how many type environmental factors can be classified?

- Two
- Three
- Four

SOLUTION

Two

Exercise 1 | Q 6.2 | Page 150

Select the correct Option

Which factors of Business Environment regards as controllable?

- Internal
- External

SOLUTION

Internal

Exercise 1 | Q 6.3 | Page 150

Select the correct Option

Who frames the economic policy of the business?

- Government
- Business
- citizen

SOLUTION

Government

Exercise 1 | Q 6.4 | Page 150

Select the correct Option

Which economic system is known as free market economy?

- Socialist
- Mixed
- Capitalist
- **Capitalist**

SOLUTION

Government

Exercise 1 | Q 7.1 | Page 151

Correct the underlined word and rewrite the following sentence.

External factors of business environment are controllable.

SOLUTION

Internal factors of business environment are controllable.

Exercise 1 | Q 7.2 | Page 151

Correct the underlined word and rewrite the following sentence.

Internal factors of business are beyond control.

SOLUTION

External factors of business are beyond control.

Exercise 1 | Q 7.3 | Page 151

Correct the underlined word and rewrite the following sentence.

Natural resources are related to political environment.

SOLUTION

Natural resources are related to **natural environment**.

Exercise 1 | Q 7.4 | Page 151

Correct the underlined word and rewrite the following sentence.

Privatization helps for global village.

SOLUTION

Globalization helps for global village.

Exercise 1 | Q 8.1 | Page 151

Answer in one sentence:

Which factors are included in internal environment?

SOLUTION

Value system, vision, mission and objective management structure, internal power relationship, Human resources, Physical facilities, Marketing resources, etc. are the factors included in internal environment.

Exercise 1 | Q 8.2 | Page 151

Answer in one sentence:

What are the powers of legislature?

SOLUTION

Policy making, law making, budget approving, executing control, etc. are the powers of legislature.

Exercise 1 | Q 8.3 | Page 151

Answer in one sentence:

Which factor influence the economic condition of the Nation?

SOLUTION

Economic condition of the nation is based on' the gross domestic product, per capital income, availability of capital, growth of foreign trade and strength of capital market.

Exercise 1 | Q 8.4 | Page 151

Answer in one sentence:

Who possess the factors of production in socialist economy?

SOLUTION

In socialist economy Government possess the factors of production.

Exercise 1 | Q 8.5 | Page 151

Answer in one sentence:

In which environment are the methods and techniques of production included?

SOLUTION

Technological environment consist of the method and technical of production.

Exercise 1 | Q 8.6 | Page 151

Answer in one sentence:

When did Indian government launch New Economic Policy?

SOLUTION

Indian government launched New Economic Policy on 24th July, 1991.

Exercise 1 | Q 8.7 | Page 151

Answer in one sentence:

What is useful to reduced political interference in industry?

SOLUTION

Privatisation is useful to reduce political interference in Industry.

Exercise 1 | Q 8.8 | Page 151

Answer in one sentence:

How is the boundary less world possible?

SOLUTION

Boundary less world is possible through Globalization.

EXERCISE 2 [PAGE 151]

Exercise 2 | Q 1 | Page 151

Explain the following term/concept.

Business environment.

SOLUTION

(I) Business environment refers to the external environment which includes factor outside the business leading to opportunities or threats of the business.

According to Bayard O. Wheeler

(II) "The total of all things external to firm and industries which affect their organization and operations is called as "Business Environment".

Explain the following term/concept.

Liberalization.

SOLUTION

(I) Liberalization refers to the process of eliminating unnecessary controls and restrictions for smooth functioning of business.

(II) Liberalization helps in achieving a high growth rate, easy availability of goods at competitive rates, high foreign exchange reserve, strong rupee and good industrial relation, etc.

Explain the following term/concept.

Privatization.

SOLUTION

(I) Privatization refers to reduce the involvement of state or public sectors by involving of private sector in economic activities.

(II) It implies government sectors to be sold or given to private individuals to run them.

Explain the following term/concept.

Globalisation.

SOLUTION

1. Globalisation means integration of the national economy and societies through cross country flows of information, ideas, technologies, good services, capital, finance, and people.
2. It also means "boundary less world".

Explain the following term/concept.

Social environment.

SOLUTION

1. Modern business is a social system in itself and forms a part of the larger social system represented by society in general.
2. The class structure of a society affects the business. Such as occupation of the people, their education, income level, social status, attitude towards living, work, and social relationship.

Exercise 2 | Q 6 | Page 151

Explain the following term/concept.

Economic environment.

SOLUTION

The economic environment comprises economic conditions, economic policies, and economic systems, basic economic philosophy, infrastructure, national income, money supply, saving stages in economic development and trade cycles.

Exercise 2 | Q 7 | Page 151

Explain the following term/concept.

Political environment.

SOLUTION

1. Government and its policies affect business firms.
2. It includes stability and peace in the country, specifically attitudes of elected representatives. The ideology of the political parties influences the business organization and attitudes of government officials towards business has an impact on business.
3. It comprises .three vital institutions like Legislature, Government, and Judiciary.

Exercise 2 | Q 8 | Page 151

Explain the following term/concept.

Internal environment.

SOLUTION

Internal environment compromises of policies decided by shareholders, managers, labour unions and employees which can be controlled which helps to make specific, proper understanding in strengthening the business.

EXERCISE 3 [PAGES 151 - 152]

Exercise 3 | Q 1 | Page 151

Study the following case/situation and express your opinion.

- 1) The court passes an order to ban polythene bags as the bags are creating many environmental problems which affect the life of people in general.
- 2) Society in general is more concerned about the quality of life. The government decided to give a subsidy to the jute industry to promote this business.

1. Identify the different dimensions of the business environment.
2. Comment on it.

SOLUTION

1. The different dimensions of business environment are:

- (a) Legal environment
- (b) Natural environment
- (c) Social environment
- (d) Political environment
- (e) Economic environment.

2. The different dimensions of business environment are:

(a) Legal Environment: Court passes the order to ban polythene bags.

(b) Natural Environment: The Court order will solve environmental problems which affect the life of people in general.

(c) Social Environment: Society is concerned about the quality of life and a better standard of living.

(d) Political Environment: The government framed a policy to give subsidies to the jute industry.

(e) Economic Environment: Subsidy to the Jute industry will promote the business of the Jute industry and this will help in economic development.

Exercise 3 | Q 2 | Page 151

Study the following case/situation and express your opinion.

Just after the declaration of the Lok Sabha 2014 result, the Bombay Stock Exchange Sensex rose by 1000 points in a day.

1. Identify the environmental factor which led to this rise giving a reason.
2. Explain any two other dimensions of the environment.

SOLUTION

1. The rise in the stock market index (Sensex) is the economic environment. But it has done due to the political environment (Lok Sabha Election Results)
2. Two other dimensions of the environment are:
 - (1) Legal environment and
 - (b) Technological environment

Study the following case/situation and express your opinion.

Anchor company manufacturing light tubes increased expenditure on Scientific Research and Development and discovered a technology that made it possible to produce an energy-efficient light tube that lasts at least twenty times as long as a standard tube. It resulted in the growth and profitability of the company.

1. Identify the dimension of the business environment.
2. State importance of the business environment.

SOLUTION

1. Technological Environment: Scientific research for innovation in product increased its production and it resulted in the growth and profitability of the company. The internal environment of the company led to growth and profitability.
2. The business environment helps in determining opportunities and threats, identify firms' strengths and weaknesses, continuous learning, image building, meeting competition and give direction for growth.

Study the following case/situation and express your opinion.

Make in India is an initiative launched by the government of India. It focuses on job creation and skill development and it is in twenty-five sectors of the economy. Under the initiative, brochures on these sectors and web portal were released. The initiative aims at high quality standards and minimizing the impact on the environment. It also seeks to attract foreign capital investment in India.

1. Identify dimensions of the business environment.
2. Comment on it.

SOLUTION

1. The various dimensions of the business environment referred to in the above case are:
 - (a) Political environment
 - (b) Technological environment
 - (c) Economic environment
2. Make in India is the policy of the government as per its ideology. As it is focusing on job creation and skill development in 25 sectors of economy, it conveys two values through this initiative. High-quality standards and concern for environment. It also aims to attract foreign capital investment in India.

Study the following case/situation and express your opinion.

The government of India is seriously thinking to allow oil marketing under the public sector, by fixing their own price for petroleum products.

1. Name the economic reform related to this decision.
2. Name the other two reforms recommended in the new economic policy.

SOLUTION

1. Privatization is the economic reform related to this decision.
2. The other two reforms recommended in the new Economic policy are Liberalization and Globalization.

EXERCISE 4 [PAGE 152]

Exercise 4 | Q 1 | Page 152

Distinguish between the following.

Social Environment and Economic Environment.

SOLUTION

Points	Social Environment	Economic Environment
(1) Meaning	Social environment includes customs, traditions, values, buying habits, tastes, etc.	Economic environment comprises of economic condition, economic policies and economic system.
(2) Factors	It includes factors such as social aspects, social trends, social values and traditions.	It includes factors like economic condition, economic policies and economic system.
(3) Supplement to	It is supplemented by cultural environment like cultural factors, values, beliefs, etc.	It is supplemented by political environment as it is influenced by political decisions or events taken by Government.
(4) Impact on business	It helps to analyze the changing social trends, taste of different social groups which helps	Changes in economic policies like agricultural policy, monetary policy, etc. lead to changes in economic system and planning which helps

	businessmen to know the opportunities and threats.	businessmen to make changes on timely basis.
(5) Purpose	It helps to know the needs of customer and satisfy the demand E. g. Today health and fitness trend has created demand for products like gym, organic foods etc.	It helps in forecasting market situations and thereby making suitable business plans E.g. Stock market fluctuations affects management ' practices in a business Enterprise.
(6) Nature	It is dynamic n nature. Changes in trends, values; growing awareness among different social groups affects the social environment.	It is multi-dimensional in character. Agriculture, infrastructure, national, per capita income, price level etc. affects the economic environment of in a country.

Exercise 4 | Q 2 | Page 152

Distinguish between the following.

Political Environment and Legal Environment.

SOLUTION

Points	Political Environment	Legal Environment.
1. Meaning	In a country, the political system, constitutional provision, party system, events taking place time to time determine the political environment.	In a Country, a business can be started, regulated, controlled, expanded within the legal framework of a country determines the legal environment.
2. Factors	Political stability, peace in the country, specific attitudes of an elected representative, etc. are the factors which affects the political environment.	Various laws are implemented from time to time with amendments in order to control and direct the business.
3. Interrelation	The political environment and economic environment are closely connected with each other.	The legal environment and regulatory environment go together

between environment		hand-in-hand in the modern business environment.
4. Impact on business	The ideology of the political parties influences the business organization.	Provides control, direction, expansion to the business organization.
5. Purpose	Political stability creates strength, confidence to various interest groups and investors in long term projects.	Separate laws implemented from time to time to safeguard and protect the interest of various groups such as business organization, workers, consumers, etc.
6. Effect of changes in the environment	Political instability affects the business organization adversely. Business policies are amended due to political issues, events, etc. prevailing in the country.	Excessive controls, implementation of laws, rules, and regulations may create problems in overall development of business organizations.

Exercise 4 | Q 3 | Page 152

Distinguish between the following.

Liberalization and Privatisation.

SOLUTION

points	Liberalization	Privatisation
(1) Meaning	It refers to the process of eliminating unnecessary controls and restrictions for the smooth functioning of the business.	It refers to reduce the involvement of state or public sectors by involving of the private sector in economic activities.
(2) Aim	It aims to bring flexibility in business operations by creating an environment for growth and expansion.	It aims at promoting efficiency, increase productivity, profitability.

(3) Need	To reduce taxation, controls on foreign exchange, attracting foreign investment, etc. thereby competing with other companies at the international level.	To achieve quick and logical business decisions aimed at the commercial success of an organisation.
(4) Measures adopted	Reduction in tariffs, reformation of the financial system, abolishing the industrial licensing system, etc.	Reduction in a number of industries reserved for the public sector, disinvestment of shares, improvement in performance through MOU.
(5) Benefits to host company	It results in, high growth rate, easy availability of goods at competitive rates, good industrial relations, etc.	It results in profitability, production of superior quality products and services, self-motivation, etc.
(6) Benefits to consumers/ traders	Optimum use of resources available at a global level, easy availability of goods at competitive rates.	The entry of the private sector results in competition thereby providing high-quality goods and services at lower prices.
(7) Positive effect	Removing the restriction on taxations, abolishing the industrial licensing system leads to the expansion and growth of new business opportunities.	Improved performance, high-quality goods, and services in the market. Timely prompt decisions with more efficiency.
(8) Adverse effect	It leads to social problems like urbanization and industrialisation, closure of domestic firms due to liberalized imported products, etc.	Growth of monopoly; inequality of income, lack of social responsibility, etc. will hamper the social order of the economy.
(9) Interrelationship	Liberalisation leads to privatisation and globalization.	Privatisation is a part of the process of globalization.

Distinguish between the following.

SOLUTION

points	Globalization	Liberalization
1. Meaning	It refers to the integration of the national economy and societies through cross country flows of information, ideas technologies, goods, services capital, finance, and people.	It refers to the process of eliminating unnecessary controls and restrictions for the smooth functioning of the business.
2. Aim	It aims at promoting world trade and economic growth by integrating technologies, goods, services, people, etc.	It aims to bring flexibility in business operations by creating an environment for growth and expansion.
3. Need	To overcome the problem of declining domestic demand and to ensure free trade.	To reduce taxation, controls on foreign exchange, attracting foreign investment, etc. thereby competing with other companies at the international level.
4. Measures adopted	Allowing Foreign Direct Investment, approving foreign technology, amendment of patent laws, etc.	Reduction in tariffs, reformation of the financial system, abolishing the industrial licensing system, etc.
5. Benefits to host company	It results in the expansion of investment. It promotes foreign trade and brings foreign exchange	It results in, high growth rate, easy availability of goods at competitive rates, good industrial relations, etc.
6. Benefits to consumers/ traders	Consumers get variety of goods as an option to be purchased foreign technology is adopted by traders thereby increasing the growth of production.	Optimum use of resources available at a global level, easy availability of goods at competitive rates.

7. Positive effect	It results in an increase in foreign trade, the inflow of foreign technology, and capital, which increases employment opportunities, business growth, etc.	Removing the restriction on taxations, abolishing the industrial licensing system leads to the expansion and growth of new business opportunities.
8. Adverse effect	It leads to exploitation of the home market by foreign companies. Capital intensive techniques lead to a reduction in job opportunities.	It leads to social problems like urbanization and industrialisation, closure of domestic firms due to liberalized imported products, etc.
9. Interrelationship	Globalisation includes liberalisation and privatisation.	Liberalisation leads to privatisation and globalization.

Exercise 4 | Q 5 | Page 152

Distinguish between the following.

Privatization and Globalization.

SOLUTION

points	Privatisation	Globalization
(1) Meaning	It refers to reduce the involvement of state or public sectors by involving of the private sector in economic activities.	It refers to the integration of the national economy and societies through cross country flows of information, ideas technologies, goods, services capital, finance, and people.
(2) Aim	It aims at promoting efficiency, increase productivity, profitability.	It aims at promoting world trade and economic growth by integrating technologies, goods, services, people, etc.

(3) Need	To achieve quick and logical business decisions aimed at the commercial success of an organisation.	To overcome the problem of declining domestic demand and to ensure free trade.
(4) Measures adopted	Reduction in a number of industries reserved for the public sector, disinvestment of shares, improvement in performance through MOU.	Allowing Foreign Direct Investment, approving foreign technology, amendment of patent laws, etc.
(5) Benefits to host company	It results in profitability, production of superior quality products and services, self-motivation, etc.	It results in the expansion of investment. It promotes foreign trade and brings foreign exchange
(6) Benefits to consumers/ traders	The entry of the private sector results in competition thereby providing high-quality goods and services at lower prices.	Consumers get a variety of goods as an option to be purchased foreign technology is adopted by traders thereby increasing the growth of production.
(7) Positive effect	Improved performance, high-quality goods, and services in the market. Timely prompt decisions with more efficiency.	It results in an increase in foreign trade, the inflow of foreign trade, the inflow of foreign technology, and capital, which increases employment opportunities, business growth, etc.
(8) Adverse effect	Growth of monopoly; inequality of income, lack of social responsibility, etc. will hamper the social order of the economy.	It leads to exploitation of the home market by foreign companies. Capital intensive techniques lead to a reduction in job opportunities.
(9) Interrelationship	Privatisation is a part of	Globalisation includes liberalisation

	the process of globalization.	and privatisation.

EXERCISE 5 [PAGE 152]

Exercise 5 | Q 1 | Page 152

Answer in brief.

State any four features of the Social environment.

SOLUTION

The four features of the social environment are as follows:

(1) Customs and Traditions: This decides the celebration of various festivals like Diwali, Id, Christmas, and its effect on business.

(2) Social Institutions and Groups or Social Aspects: Literacy level, educational system, cultural heritage standard of living of the various groups of people affect the social environment of business.

(3) Social Values: Cultural and social justice, national integration affect the business. Beliefs also help the business to meet customer needs.

(4) Social Trends: Nowadays people have become health conscious and therefore there is a sale of various types of goods like organic food, sugar-free products, etc.

Exercise 5 | Q 2 | Page 152

Answer in brief.

Describe any two factors of economic environment.

SOLUTION

The economic environment has a direct influence on business.

1. **The Economic System:** Economic activities depend upon the nature of the economic system which are:

- (a) Capitalist economy: e.g. USA.
- (b) Socialist economy: e.g. China
- (c) Mixed economy: e.g. India

2. **Economic Policies:** The various economic policies of the government has a direct influence on the economic environment. For e.g. import and export policy, educational policy, agricultural policy, industrial policy, foreign investment policy,

etc.

3. **Economic Condition:** The stage at which the growth stands, employment rate, rate of interest, etc. All those determine the development of the country.

Exercise 5 | Q 3 | Page 152

Answer in brief.

State any four features of globalization.

SOLUTION

Features of globalization are as follows:

1. Purchase and sale of goods and services from one country to another.
2. Opportunity to start and do business in any part of the world.
3. Reduction in the gap between the domestic and international markets.
4. Possibility of quick and rapid economic development. Enhances the opportunity to exchange new ideas and technology across the nations.

Exercise 5 | Q 4 | Page 152

Answer in brief.

State any four reasons of the need for privatisation.

SOLUTION

There is need for privatisation because of the following reasons:

1. To bring more efficiency in the working of business firms.
2. To reduce political interference in the working of the firms and companies.
3. To improve the quality of the products.
4. To bring efficiency in the management of the organization.
5. To create discipline in the capital market.

EXERCISE 6 [PAGE 152]

Exercise 6 | Q 1 | Page 152

Justify the following statement:

External factors of business environment are beyond control.

SOLUTION

1. Factors that influence the business policy of an organization can be divided into internal and external factors.

2. The business has no control over external forces.
3. These are those factors that provide opportunities or pose threats to the organization.
4. Factor such as social customs, values, economic policies, technological development, political ups and downs, legislation together constitute political, social, economic, legal, and technological diversions of business. Hence, they are not in the hands of business organizations.
5. Internal factors are controllable and the business unit can modify their plans, policies, etc. (Students can give an example of social, political, legal environment to justify further)

Exercise 6 | Q 2 | Page 152

Justify the following statement:

Business firms should be aware of the changes in society.

SOLUTION

1. The success of every business depends on adapting itself to the environment in which it functions.
2. Modern business is rightly termed as a socio-economic activity.
3. There is a reciprocal relationship between business and society.
4. Business is affected by the class structure of the society which 'depends upon factors such as occupation its own culture, income, etc.
5. Every society depends on its own culture, customs, tradition, values, ethics, etc. social trends are also changing fast. For e.g. a large number of people are eating fast food and go to gyms. So many fast food outlets and gyms are coming up in town and cities.
6. Social values and traditions such as the celebration of Diwali, Eid, Christmas also affect business.

Exercise 6 | Q 3 | Page 152

Justify the following statement:

Political stability builds up confidence among business people.

SOLUTION

1. Business firms are affected by the government and its policies.
2. Political force decides the nature of the business, device performance, and projects for development.
3. The political environment includes stability and peace in the country. Political stability builds confidence among different interest groups and investors because long term policies and projects will be started by the government and if the government keeps on changing every six months or in a year.
4. This will impact long term decisions of development for the country. Because political parties identify forms their decision making. Hence if a government gets its full tenure of 5 years, it can complete its projects and plans and win the confidence of the people.

Exercise 6 | Q 4 | Page 152

Justify the following statement:

The economic environment has a direct influence on business.

SOLUTION

1. Economic environment consists of economic conditions, economic policies, and economic systems along with basic economic philosophy, infrastructure, national income, money supply, etc.
2. Economic condition is based on GDP, per capital income, availability of capital, growth of foreign trade, and capital market.
3. Whereas economic policies framed by the government from time to time changes with changes in the government.
4. Every business has to function within the policy framework and responds to changes accordingly.
5. This relates to Industrial Policy, monetary policy, foreign investment, EXIM policy education policy, etc.
6. Also, the scope of private business and government regulation depends on the economic system such as; capitalist economy, Socialist or mixed economy which impacts business decisions.

Exercise 6 | Q 5 | Page 152

Justify the following statement:

Social trends provide business opportunities.

SOLUTION

1. Society and business are inter-dependent.
2. Class structure such as occupation, education, income level social status, attributes, etc. impact business decisions.
3. Social trends are any type of activity that is practiced in society as a whole.
4. Trends can be for a short period or long-lasting. As technology progresses the changes in social trends do change.
5. Companies use their ability to anticipate social change as part of their business marketing policy, to grab business opportunities.

Exercise 6 | Q 6 | Page 152

Justify the following statement:

Adequate knowledge of rules and regulations is essential for better business performance.

SOLUTION

1. Any business in a country can be started, regulated, and controlled within the legal framework of a country.
2. A separate set of laws are framed by all countries to control and direct the business affairs.
3. Knowledge of law, rules, and regulations helps the business managers to take a prompt decision in making business policies.
4. Various laws are implemented for influencing the business, protect and safeguard the business, as well as the consumers.

EXERCISE 7 [PAGE 152]

Exercise 7 | Q 1 | Page 152

Attempt the following:

Importance of business environment.

SOLUTION

(A) Business Environment: A business is defined as buying and selling activity to generate income. The business consists of several interrelated and interacting elements. Business is an economic and social activity of the society. Society is an integral part of

the business and its interest cannot be ignored. The business environment consists of the economic, social, legal, technological, and political situation. The business obtains money, material, machinery and manpower, and other resources from the environment.

According to **B. O. Wheeler**- A business environment is "the total of all things external to firms and individuals which effect their organisation and operations".

According to the **Oxford English Dictionary**- "Business Environment refers to those aspects of the surroundings of a business enterprise which influence or affect its Operations and determine its effectiveness."

Basically business environment consists of all internal and external factors that influence the nature and scope of business activity.

(B) Importance of Business Environment:

(I) Flexible and Dynamic: Changing environmental factors should be appraised from time to time. So as to keep the business flexible and dynamic. The new opportunities and threats created by the environment can be appraised by the corporate planners to make the most of it. Turbulent market conditions, less brand loyalty, more demanding customers, and intense global competition are some of the images of today's business environment. In order to cope with these significant changes, the organization must understand and examine the environment and develop a suitable course of activity.

(II) Opportunities and Threats: Study of business environment enables a business enterprise to visualize future problems that can arise as also future business prospects in advance. Deriving benefit from honorable business opportunities is possible as also it can face the problems boldly. Awareness of the environment helps an organisation to take advantage of such opportunities instead of losing them to the competition. It helps the organisation to identify various threats on time and serves as an early signal.

(III) Competition: Understanding the business environment helps to obtain qualitative information which in turn is useful in formulating business plans, policies, and strategies for the future course of action.

(IV) Utilization of Resources Optimally: Optimum use of available resources for the business enterprise is possible by studying the business environment. It enables the enterprise to take full advantage of the policies implemented by the government.

(V) Strength and Weakness Identification: With the change of technology and global development it helps to analyze individual strengths and weaknesses of the business understanding the challenges, appropriate decisions are taken on a timely basis.

(VI) Knowledge: Study of the environment is necessary to discover and exploit new opportunities for business expansion broad strategies and long term planning enables the development of a formidable business wait.

(VII) Image Building: Environment-study makes it possible for the business to expand and to make it acceptable and agreeable to different social groups. By fulfilling its social obligations towards different groups of society, a business can create goodwill and reputation for itself.

(VIII) Adaptability to Socio-Economic Changes: A business organization needs to show its keen intentions towards adapting to the socio-economic changes.

Exercise 7 | Q 2 | Page 152

Attempt the following:

Social Environment.

SOLUTION

Business is an economic and social activity. It has to produce goods according to the requirement of the customers. Satisfying customers is the basic need of business. Therefore, while manufacturing or producing goods, the business has to take into consideration social factors like traditions, customs, education, habits, values, lifestyles, thinking and earnings of the people of the country. Changes in the social environment are a must and management has to take into consideration these factors which determine the following aspects.

(1) Social Aspect: Literacy level, educational system, tradition and customs, the transition of labour, etc. are important aspects of the social environment. It helps to analyze the needs of the people and accordingly the business opportunities are identified.

(2) Social Trends: Business practices and procedures must be in tune with social beliefs. A growing number of working women and changing lifestyles have increased the demand for household appliances in India.

(3) Social Values: Cultural and social values. (Social justice, national integration, etc.), family organization and caste structure, social institutions, and groups, are taken to consider while making practices and procedures of the business.

(4) Traditions: Customs and traditions. (Diwali, Id, Christmas, etc.) also has an effect on the business. The businessmen have to be more responsible for the demand of the people accordingly.

Exercise 7 | Q 3 | Page 152

Attempt the following:

Economic Environment.

SOLUTION

The economic environment comprises economic condition economic policies and economic systems which are the important factors influencing development and trade cycles, national income, etc.

(1) Economic Condition: It refers to the present state of the economy of a country or region based on the gross domestic product, per capita income, availability of capital, etc.

(2) Economic Policies: The government frames economic policies from time to time influencing business activities. In order to control the business in the interest of the politics. e.g.- Intestinal policy, monetary policy foreign investment policy, etc.

(3) Economic System: It refers to the scope of private business and extent of government regulation on economic activities determines the nature of the economic system i.e. capitalist social or mixed economic

Exercise 7 | Q 4 | Page 152

Attempt the following:

Political Environment.

SOLUTION

Political dimensions or environment includes the country's political system or its ideologies or condition i.e. dictatorship or democracy or communist government or socialistic government.

It indicates the general stability and peace in the country and attitude of the elected government representatives towards business.

Political stability builds up confidence among business people to invest in long term projects for the growth of the economy.

In India we have adopted a mixed economy and growth rate often remains moderate. Indian political system comprises three vital institutions like Legislature, Government, and Judiciary.

(1) Legislature: the legislature is a very powerful force that decides the nature of the business, programs, project for the development of the country through policy-making, lawmaking, budget approving, etc.

(2) Government: The framework of policies are implemented by the government which affects the business organization to undertake the responsibilities of the society.

(3) Judiciary: It determines the work of executives to carry out the policies in a systematic manner, in order to settle the relationship between citizens and the government.

Exercise 7 | Q 5 | Page 152

Attempt the following:

Impact of new economic policy on business and industry.

SOLUTION

(A) Introduction: On July, 1991, the Government of India announced its New Industrial Policy. It brought about radical changes in the Economic Policy. The three main pillars of Economic reforms are L-P-G- (Liberalisation, Privatisation, and Globalisation). The main purpose was to modernise India's Industrial system, implement new techniques, remove unproductive control, encourage private investment, and integrate our economy with the global economy.

(B) Impact of changes in Government Policy on Business and Industry:

(1) Budgetary Support: The Central Government's budgetary support for financing the public sector outlays have declined over the years. In order to survive and grow, PSUs have to be more efficient and self-sufficient so as to compete with the private sector.

(2) Increase in Competition: Competition for Indian firms has increased due to the changes in the rules of industrial licensing and entry of foreign firms. For e.g. Service Industries like Insurance, Banking, Telecommunications, Hotel, and Airlines, etc. which were earlier in the public sector are now facing competition from private players such as Bajaj Alliance, Max Life, Star Life, Insurance, low-cost airlines like Indigo, etc.

(3) New Trade Policy: The new trade policy has helped the Indian Firms to enter into foreign markets and earn the foreign exchange required for importing raw materials, spare parts and components they needed for keeping their production lines going.

(4) Demanding Customers: Today's market is customer-oriented as customers are well informed and there is a growing awareness among them about the malpractices adopted by traders, consumer rights, consumer education, and so on. Moreover, competition in the market gives the customer a wider choice in purchasing good quality products and makes customers more demanding.

(5) Need for Human Resource Development: New technologies require expert knowledge and skill in various fields. Moreover, newer markets made it compulsory for companies to acquire trained personnel with a high degree of competence and commitment. Hence, there is a need for well-trained staff and thereby develop human resources.

(6) Change in Technological Environment: Increased competition and advancements in the field of technology have forced the business units to develop new ways to survive and grow in the market and keep pace with the latest technological developments.

(7) Change in the Concept of Marketing: Earlier business organisations were production oriented but due to the fast-changing business world it has now become market-oriented. This changed to a societal concept where the needs of society are kept in mind by the producers. The latest is relationship marketing whereby it is not only

producing goods for consumers but maintaining long term relationships with them so as to sustain them.

EXERCISE 8 [PAGE 152]

Exercise 8 | Q 1 | Page 152

Answer the following.

What is the business environment? Explain the importance of the business environment.

SOLUTION

(A) Business Environment: A business is defined as buying and selling activity to generate income. The business consists of several interrelated and interacting elements. Business is an economic and social activity of the society. Society is an integral part of the business and its interest cannot be ignored. The business environment consists of the economic, social, legal, technological, and political situation. The business obtains money, material, machinery and manpower, and other resources from the environment. According to **B. O. Wheeler**- A business environment is "the total of all things external to firms and individuals which effect their organisation and operations".

According to the **Oxford English Dictionary**- "Business Environment refers to those aspects of the surroundings of a business enterprise which influence or affect its Operations and determine its effectiveness."

Basically business environment consists of all internal and external factors that influence the nature and scope of business activity.

(B) Importance of Business Environment:

(1) Flexible and Dynamic: Changing environmental factors should be appraised from time to time. So as to keep the business flexible and dynamic. The new opportunities and threats created by the environment can be appraised by the corporate planners to make the most of it. Turbulent market conditions, less brand loyalty, more demanding customers, and intense global competition are some of the images of today's business environment. In order to cope with these significant changes, the organization must understand and examine the environment and develop a suitable course of activity.

(2) Opportunities and Threats: Study of business environment enables a business enterprise to visualize future problems that can arise as also future business prospects in advance. Deriving benefit from honorable business opportunities is possible as also it can face the problems boldly. Awareness of the environment helps an organisation to take advantage of such opportunities instead of losing them to the competition. It helps the organisation to identify various threats on time and serves as an early signal.

(3) Competition: Understanding the business environment helps to obtain qualitative information which in turn is useful in formulating business plans, policies, and strategies for the future course of action.

(4) Utilization of Resources Optimally: Optimum use of available resources for the business enterprise is possible by studying the business environment. It enables the enterprise to take full advantage of the policies implemented by the government.

(5) Strength and Weakness Identification: With the change of technology and global development it helps to analyze individual strengths and weaknesses of the business understanding the challenges, appropriate decisions are taken on a timely basis.

(6) Knowledge: Study of the environment is necessary to discover and exploit new opportunities for business expansion broad strategies and long term planning enables the development of a formidable business wait.

(7) Image Building: Environment-study makes it possible for the business to expand and to make it acceptable and agreeable to different social groups. By fulfilling its social obligations towards different groups of society, a business can create goodwill and reputation for itself.

(8) Adaptability to Socio-Economic Changes: A business organization needs to show its keen intentions towards adapting to the socio-economic changes.

Exercise 8 | Q 2 | Page 152

Answer the following.

Explain the new economic policy in details.

SOLUTION

New economic policy was introduced by the Government on 24th July, 1991, on the failure of the earlier Industrial policy prevailing in India.

The new policy was known as LPG i.e. Liberalisation, privatisation and Globalisation. This was the brain child of Prime Minister P. V. Narasimha Rao and the finance minister Dr. Manmohan Singh.

(1) Liberalisation:

It means to liberate the industry, trade, and commerce from the unnecessary restrictions and regulations that curtailed the freedom of enterprise. Liberalisation has helped the Indian economy to open up and allowed the entry e Interaction with the world has happened after the 1991 policy.

Liberalisation policy has brought about the following measures:

- (a) Encouraging Direct Foreign Investment.
- (b) Wide choice of products and services enjoyed by the customers.
- (c) Reduction in control of Foreign Exchange.

- (d) Cost of products, price, and quality in tune to the global markets.
- (e) Changing the approach towards industrial sickness.
- (f) Production of quality products to meet the competitive markets.
- (g) Freedom to choose the scale of business.
- (h) Reduction in tax rates, tax holidays, etc.
- (i) Encouraging new technology, technological up-gradation, and foreign collaboration.
- (j) Import of machinery, goods, and other services on easy terms.
- (k) Abolishing licensing system for most of the industries.
- (l) Opening the telecommunication sector.

Liberalisation has thus made the country achieve a high growth rate, made the rupee stronger and helped good industrial relations.

(2) Privatisation:

Privatisation is a process of transferring ownership of the business, enterprise agency, or public service from the public sector (government) to the private sector.

Features of Privatisation are:

- (a) To provide a variety of business units to consumers.
- (b) To ensure less political interference in running the business.
- (c) To bring about more accountability.
- (d) To reduce labour problem.
- (e) To bring about a market-oriented approach.
- (f) To make the competition more intense.
- (g) To bring about more efficiency.
- (h) To maintain capital market discipline.

The government of the country has followed a disinvestment policy.

Disinvestment means:

When there is a sale of a public undertaking in full or part of the private sector without

transferring the ownership to the private sector.

The management and control are transferred to public undertaking e.g. Maruti Udyog Ltd., SAIL, ONGC, etc.

Improvement in the performance of the industries through Memorandum of Understanding (MOU). Privatisation helps the private sector to be efficient result oriented, productive, and active. Capitalist countries like America and Japan have followed privatisation.

(3) Globalisation:

When the operation and organization of business activities are on a global scale, it is called Globalisation. It is the integration of business activities by considering the entire world is one market. In short, globalisation means a boundary-less world, where there would be a free flow of goods, services information, capital, and people across nations. Globalisation has an effect on the socio-economic and political sphere of life.

Features of Globalisation:

- (a) Buying and selling goods from/to any country is possible due to globalisation.
- (b) Establishing manufacturing, production, and distribution facilities in any part of the world.
- (c) Freedom to set up and operate a business in any part of the world.
- (d) Render faster economic development of any country.
- (e) Exchange of new ideas and technology across nations.
- (f) Narrowing differences between domestic and international markets.
- (g) Direct foreign private participation in the industrial development of any country. Thus it could be seen that globalisation is an evolutionary concept. Through the policy of 1991, the government moved the country to this globalisation pattern.