

Chapter 3

Business Environment

Chapter 3 Business Environment

VERY SHORT ANSWER TYPE QUESTIONS (1 MARK)

1. What is Business Environment?

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

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

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

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

Ans. They have to develop new ways.

4. What do you mean by Globalization?

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

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

Ans. The Industrial Policy of 1991.

6. What do you mean by disinvestment?

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

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

Ans. Abolishing licensing requirements.

8. What do you mean by first mover advantage?

Ans. Early identification of opportunities.

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9. What are Values?

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

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

Ans. Public sector.

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

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

12. What do you mean by Liberalisation?

Ans. It means reduction in government controls and restrictions

13. Which two factors are included in Technological Environment?

Ans. Scientific Improvement and Innovations.

14. What is meant by opportunities?

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

15. What do you mean by Innovation?

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

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

Ans. Liberalisation.

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SHORT ANSWER TYPE QUESTIONS (3 OR 4 MARKS)

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

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

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

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

3. Enumerate the benefits of understanding business environment.

Ans. The benefits of understanding business environment are:

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

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

Ans. The main dimensions of business environment are

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

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

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

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

6. Explain the concept of technological environment.

Ans. It includes new approaches, new procedures, and new equipment's to transform inputs into outputs. It facilitates an organization's efficiency and effectiveness so that it can try to remain at par with the best in the world.

Technological changes provide opportunities for some enterprises and become threats for some others.

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

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

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

Two examples protecting consumers' interests:

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

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

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

- (i) New industrial policy

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

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

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

LONG ANSWER TYPE QUESTIONS (5 OR 6 MARKS)

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

Ans. Business environment is the sum total of all external factors that influence the functioning of a business enterprise. The components of general environment are:

(i) Economic environment:

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

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

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

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

(iii) Political environment

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

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

(iv) Technological environment

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

Impact : Digital watches have pushed out traditional watches.

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

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

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

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

Following are the main aspects of economic environment:

- (i) The role of public and private sector in the existing structure of the economy.
- (ii) The rate of increase in GNP and per capita income both at current and constant prices.
- (iii) Quantum of exports and imports of different products.
- (iv) Increase in transportation and communication facilities.
- (v) Trends in agricultural and industrial productions.
- (vi) Amount of savings and investments.

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

Explain ?

Ans. A business is a part of the society in which it operates. The buying and consumption habits of the people, their languages, customs, preferences, tastes etc. are the factors that influence the business. Businessmen should be alert enough to visualize the factors that directly or indirectly affect their organization.

Cooperation between business and society will see business boom and will help growth of professional managers. The failure of any business organization in adapting to changes in the social environment will lead to dissatisfaction amongst its customers and rejection of its products. This shift of demand can even endanger the very survival of a business. For example, equal pay

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for male and female workers, demand for reservation in jobs for minorities and women etc.

4. Enumerate negative impacts of liberalization and globalization.

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

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

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

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

- (i) Opportunities for new entrepreneurs.
- (ii) Latest technology becoming available.
- (iii) Opening up of foreign markets.
- (iv) Easy imports of capital goods.
- (v) Direct investment by Indian companies abroad.
- (vi) Changed attitude of labor unions,
- (viii) Easy inflow of foreign capital.
- (ix) Freedom to expand and diversify.
- (x) Restructuring of industries.
- (x) Widening of product choices for consumers.

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

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

(i) Threats from multinational companies (MNCs)

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

(ii) Destabilization of protected environment

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

(iii) Decline in public sector

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

(iv) Sellers' market turned into buyers' market

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

(v) Fall in the value of rupee

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

QUESTIONS WITH DIFFERENT DIFFICULTY LEVELS

1. Why is business environment uncertain? – 1

Ans. Future happenings are very difficult to predict.

2. What is meant by Market Orientation? – 1

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

3. How can environment awareness help managers? – 1

Ans. Various threats are identified in time.

4. How can political stability be beneficial to the economy? – 1

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

5. What was the immediate cause of economic reforms in 1991? – 1

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Ans. High Government deficit.

6. What is meant by threats?(1)

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

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

Ans. Rapid Economic Growth

8. ‘Environment provides both constraints and opportunities.’ Comment.

Ans. Business environment provides both constraints and opportunities. Some of the constraints are economic conditions, customs, government regulations, availability of natural resources etc. Inspire of many initiatives, FDI is not picking up in India due to political and bureaucratic hurdles. On the other hand, environment also offers various opportunities which include changin needs of customers, technological advances etc. Forexample, the growing demand for A.C. has attracted many new players, domestic (Godrej, Kirloskar) as well as multinationals (LG Electronics) to this industry. (3or4)

9. Business environment or Environmental Scanning helps in the identification of threats and early warning signals.” Explain?

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

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

Ans. Indian economy has gradually become more liberal and global since 1991. Liberalization refers to the removal of various outdated rules, regulations etc. and providing more helpful norms for the business to grow, particularly in the fields of exports and imports.

Some of the impacts of changes in government policy on business and industry are as under:

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

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

Two reforms made under Privatization:

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

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

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

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

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

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

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

Ans. Four examples of mergers and acquisitions are:

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

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

Ans. Following changes have been observed since 1991:

(i) New Industrial Policy:

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

(ii) New Trade Policy:

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

(iii) Fiscal Reforms

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

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- Decrease in subsidies.

(iv) Monetary Reforms

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

(v) Capital Market Reforms

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

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

Ans. (i) Fiscal Reforms

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

(ii) Monetary Reforms

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

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

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

i) Strategic alliance, mergers and consolidation of businesses

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

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managers of such enterprises.

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

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

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

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

Exercises

Short Answer Type Questions

1. What do you understand by business environment?

Ans: The term 'business environment' means the sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but that may affect its performance. The economic, social, political, technological and other forces, which operate outside the business enterprise are part of its environment.

2. Why it is important for business enterprises to understand their environment? Explain briefly.

Ans: It is important for business organisations to understand their environment because of the following reasons.

(i) It Enables the Firm to Identify Opportunities and Getting the First Mover Advantage Environment provide numerous opportunities for business. Early

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identification of opportunities helps an enterprise to use it before instead of losing them to competitors.

(ii) It Helps the Firm to Identify Threats and Early Warning

Signals Environmental awareness can help managers to identify various threats on time and serve as an early warning signals.

(iii) It Helps in Tapping Useful Resources Environment is a source of various resources for running a business. To engage in any type of activity, a business enterprise assembles various resources called inputs. This can be done better by understanding what the environment has to offer.

(iv) It Helps in Coping with Rapid Changes All types of enterprises facing increasingly dynamic environment. In order to effectively cope with these significant changes, managers must understand and examine the environment and develop suitable courses of action.

(v) It Helps in Assisting in Planning and Policy Formulation Since environment is the source of opportunities and threats, its understanding and analysis becomes the base for various policies to be framed and strategies to be made.

(vi) It Helps in Improving Performance The enterprises that continuously monitor their environment and adopt suitable business practices are the ones, which not only improve their present performance but also continue to succeed in the market for a longer period.

Q3. Mention the various dimensions of business environment.

Ans:

(i) Economic Environment Interest rates, inflation rates, value of rupee and many more are the economic factors that can affect management practices in a business enterprise.

(ii) Social Environment The social environment of business includes the social forces like customs and traditions, values, social trends etc.

(iii) Technological Environment This includes forces relating to scientific improvements and innovations, which provide new ways of producing goods and services and new methods and techniques of operating a business.

(iv) Political Environment This includes political conditions such as general stability and peace in the country and specific attitudes that elected government

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representatives hold towards business.

(v) **Legal Environment** This includes various legislations passed by government authorities and court judgements. It is important for the management of every enterprise to obey the law of land and for this, enough of knowledge of rules, and regulations framed by the government is a pre-requisite for better performance.

4. Briefly explain the following

- (a) Liberalisation
- (b) Privatisation
- (c) Globalisation

Ans: The three important features of New Economic Policy, 1991

(a) **Liberalisation** Under the new economic policy of 1991, the economic reforms that were introduced aimed at liberalising the Indian business and industry from all unnecessary controls and restrictions. They signalled the end of the licence-permit quota raj.

(b) **Privatisation** The new set of economic reforms that aim at giving greater role to the private sector in the nation building process and a reduced role to the public sector.

(c) **Globalisation** Globalisation means the integration of the various economies of the world leading towards the emergence of a cohesive global economy. Till 1991, India had a policy which strictly regulated imports in value and volume terms. After 1991, the reforms aimed at import liberalisation.

5. Briefly discuss the impact of Government policy changes on business and industry.

Ans: Impact of Government policy changes on business and industry

- (i) **Increasing Competition** As a result of liberalisation, privatisation and globalisation number of players increased in all sectors and increased competition for everyone.
- (ii) **More Demanding Customers** Increased competition in the market gives the customer wider choices in purchasing better quality of goods and services, which makes them more demanding.

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- (iii) **Rapidly Changing Technological Environment** New technologies help to improve machines, process products and services. The rapidly changing technological environment creates tough challenges before smaller firms.
- (iv) **Necessity for Change** After 1991, the market forces have become turbulent as a result of which the enterprises have to continuously modifying their operations.
- (v) **Need for Developing Human Resource** The new market conditions require people with higher competence and greater commitment. Hence, the need for developing human resources emerged.
- (vi) **Market Orientation** Earlier, production was taken up first and then selling was done. Now, due to increasing competition and more demanding customers firms have to study and analyse the market first and produce goods accordingly.
- (vii) **Loss of Budgetary Support to the Public Sector** Public sector have less of budgetary support from the Central Government. Now, they have to generate their own resources and be more efficient in order to survive and grow.

Long Answer Type Questions

1. How would you characterise business environment? Explain with examples, the difference between general and specific environment.

Ans: Features of business environment

- (i) **Totality of External Forces** Business environment is aggregative in nature as it is the sum total of all things external to business firms.
- (ii) **Inter-relatedness** Different elements of business environment are closely related to each other, e.g., increased awareness of health care have increased the demand for many health products.
- (iii) **Dynamic Nature** The business environment is highly dynamic. It keeps on changing. Sometimes there is a change in technology, tastes and preference of consumer etc.
- (iv) **Uncertainty** The environment cannot be predicted. It is highly uncertain and unpredictable.
- (v) **Complexity** Since there are many elements of business. Environment and they are inter-related and dynamic in nature. Therefore, it becomes very difficult to understand them as a whole.

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Difference between Specific and General Environment There are two types of forces operating in business environment specific and general. Specific forces affect the individual enterprises directly and immediately, e.g., customers, suppliers.

General forces affect the firms and only indirectly e.g., social conditions or political conditions.

2. How would you argue that the success of a business enterprise is significantly influenced by its environment?

Ans: Importance of business environment

(i) It Enables the firm to Identify Opportunities and Getting the First Mover Advantage

Environment provides numerous opportunities for business success. Early identification of opportunities helps an enterprise to be the first to exploit them instead of losing them to competitors, e.g., Eureka Forbes introduced Aquaguard and took away the cream of demand.

(ii) It Helps the Firm to Identify Threats and Early Warning

Signals Environment happens to be the source of many threats. Environmental awareness can help managers to identify various threats on time and serve as an early warning signals e.g., Lakme took serious steps to improve the quality and types of products as foreign multinational cosmetics companies started coming to India after 1991.

(iii) It Helps in Tapping Useful Resources Environment offers various resources for running a business in return the business enterprise supplies the environment with its outputs such as goods and services for customers, taxes for government. In order to arrange for the best possible resources, better understanding of the environment becomes important.

(iv) It Helps in Coping with Rapid Changes It is not the fact of change itself that is so important as the pace of change. There are many changes taking place in the environment and at a fast speed. In order to effectively cope with these changes, managers must understand and examine the environment and develop suitable courses of action.

(v) It Helps in Assisting in Planning and Policy Formulation Since environment

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is a source of both opportunities and threats, its understanding and analysis only helps in formulating the best possible policies to handle the future properly.

(vi) **It Helps in Improving Performance** Continuous monitoring and adopting changes in an enterprise will help in improving not only their present performance, but also continue to succeed in the market in long run.

3. Explain with examples, the various dimensions of business environment.

Ans: Dimension of business environment

(i) **Economic Environment** It includes the changes in the system due to economic policies made by the government. Reserve Bank of India is the key regulator of country's economic environment since it

- (a) influences the interest rates
- (b) controls the flow of money in the economy
- (c) regulates the working of banks

Example When the banks reduce the interest rates on long term loans, automobiles and construction industries get a boost to the business as more spending is made on the purchase of homes and cars through loans.

(ii) Social Environment

The social environment of business include the social forces like customs and traditions, values, social trends, society's expectations from business etc. In business terms, these values translate into freedom of choice in the market. Major elements of social environment are

- (a) life expectancy
- (b) shifts in the presence of women in the workforce
- (c) consumption habits

Example Due to the shift in the presence of women in the workforce, the demand for readymade ladies formal wear, cosmetics, packed/processed food, electronic gadgets has gone up.

(iii) Technological Environment

Technological environment includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business.

Example Because of technological advancement, it has become possible to book

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railway tickets through internet from home, office etc.

(iv) Political Environment

Political environment includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business. It is only of use when a business enterprise can predict its business activities under stable political conditions. Major elements of political environment are

- (a) The constitution of the country
- (b) The nature and profile of political leadership and thinking of political personalities
- (c) Political ideology and practices of the ruling party.

Example After the NEP of 1991, due to globalisation the foreign companies started coming to India, but due to the bureaucratic red tape it became difficult for them to cut through it to do business here. As a result, these companies were discouraged in our country regarding investments. The situation has improved overtime.

(v) Legal Environment

Legal environment includes various legislations passed by the Government administrative orders issued by government authorities, court judgements as well as the decisions rendered by various commissions and agencies. It is imperative for the management of every enterprise to obey the law of the land. Therefore, an adequate knowledge of rules and regulations framed by the government is a pre-requisite for better business performance.

Example There is a government regulation to protect consumer's interest e.g., the advertisements of alcoholic beverages is prohibited.

4. What economic changes were initiated by the Government under the Industrial Policy, 1991? What impact have these changes made on business and industry?

Ans: Economic changes initiated by the government under the Industrial Policy, 1991

- (i) The government reduced the number of industries under compulsory licensing to six.

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- (ii) The role of public sector was reduced. It was now limited only to four industries of strategic importance.
- (iii) Disinvestment was carried out in case of many public sector industrial enterprises.
- (iv) Foreign Direct Investment was permitted.
- (v) Automatic permission was now granted for technology agreements with foreign companies.
- (vi) Foreign Investment Promotion Board (FIPB) was set up to promote and channelise foreign investment in India.

The Indian corporate sector has come face-to-face with several challenges due to government policy changes. Some of them are

- (i) **Increasing Competition** The competition has increased due to entry of new players (privatisation and globalisation).
- (ii) **More Demanding Customers** Customers today, has become more demanding because they are well-informed. Increased competition in the market gives the customers wider choice in purchasing better quality of goods and services.
- (iii) **Rapidly Changes Technological Environment** The rapidly changing technological environment creates tough challenges before smaller firms.
- (iv) **Necessity for Change** After 1991, the market forces have become turbulent as a result of which the enterprises have to continuously modify their operations.
- (v) **Need for Developing Human Resources** Earlier, Indian enterprises worked with inadequately trained personnel. The new market conditions require people with higher competence and greater commitment. Hence, the need for developing human resources.
- (vi) **Market Orientation** Before 1991, all firms worked with production oriented marketing operations. In a fast changing world, there was a shift to market orientation. The firms had to study and analyse the market first and produce goods accordingly.
- (vii) **Loss of Budgetary Support to the Public Sector** The public sector undertakings have realised that in order to survive and grow, they will have to be more efficient and generate their own resources for the purpose.

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5. What are the essential features of

- (a) **Liberalisation**
- (b) **Privatisation**
- (c) **Globalisation**

Ans: Ans Essential features of

(a) **Liberalisation**

- (i) Abolishing licensing requirements in most of the industries except a short list.
- (ii) No restriction on expansion or contraction of business.
- (iii) Free movement of goods and services.
- (iv) Freedom in fixing the prices of goods and services.
- (v) Reduction in tax rates.
- (vi) Simplifying procedures for imports and exports.
- (vii) Making it easier to attract foreign capital and technology to India.

(b) **Privatisation**

- (i) The government redefined the role of public sector.
- (ii) Policy of planned disinvestments of the public sector.
- (iii) Refining of sick enterprises to the Board of Industrial and Financial Reconstruction.

(c) **Globalisation**

- (i) Import liberalisation
- (ii) Export promotion
- (iii) Foreign exchange reforms

Case Problem

Lately many companies have planned for significant investment in organised retailing in India. Several factors have prompted their decision in this regard. Customers income is rising. People have developed a taste for better quality products even though they may have to pay more. The aspiration levels have increased. The government has also liberalised its economic policies in this regard and permitted even cent per cent foreign direct investment in some sectors of retailing.

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1. Identify changes in business environment under different heads – economic, social, technological, political and legal that have facilitated the companies decisions to plan significant investments in organised retailing.

Ans: Changes which have taken place in the following areas are as follows

(i) **Economic** Availability of more money because of employment opportunities increasing.

(ii) **Social** Tastes of customers are changing. As he is getting more exposure to the outside world his tastes are changing.

(iii) **Technological** Technological advancements have led to advanced ways of counting, checking, coding, billing, discounts which are convenient for the customer and also retailer

(iv) **Political** Government policies are encouraging developers to go for mass construction on real estate. As MNCs are coming to India, they have to be provided an internationally based infrastructure to operate from.

(v) **Legal** As the government is providing more rights to the consumers, an organised retailing outlets would be more particular in taking care as compared to a small retailer.

2. What has been the impact of these changes with regard to globalisation and privatisation?

Ans: Answer Due to globalisation and privatisation, more retailers from India and abroad are encouraged to make investments in organised retailing. The competition has increased, the consumers are more demanding and expert working force is required in order to cope up with the changes, which have taken place and are further changing.

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Multiple Choice Questions

1. A business has to offer a wider choice in purchasing enhanced quality of goods and services in order to maintain an edge over its competitors. The implementation of the new economic policy with liberalisation, privatisation, and globalisation has posed various challenges for the corporate sector. One of the important challenges is explained in the above lines. Identify it.

- (a) Increasing competition
- (b) More demanding customers
- (c) Necessity for change
- (d) Market orientation

Answer: (a) Increasing competition

2. Which of the following is a feature of demonetisation?

- (a) Tax administration measure
- (b) Channelising savings into the formal financial system
- (c) Development of less-cash economy
- (d) All of the above

Answer: (d) All of the above

3. On 8th November 2016, with the announcement from the Government of India, all the ₹500 and ₹1,000 banknotes of the Mahatma Gandhi series have ceased to be legal tender. The government also announced the issuance of new ₹500 and ₹2,000 banknotes in exchange for the demonetised banknotes. Identify the concept being described in the above lines.

- (a) Globalisation
- (b) Liberalisation

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(c) Demonetisation

(d) Privatisation

Answer: (c) Demonetisation

4. In today's world, the flow of goods and services is not only cheap and fast, but reliable and secure. You can order anything you wish from any part of the world. The Internet has been connecting people without any limitations or boundaries in the way of doing business. Identify the concept being described in the above lines.

(a) Liberalisation

(b) Globalisation

(c) Demonetisation

(d) Privatisation

Answer: (b) Globalisation

5. The Government of India launched the "Make in India" initiative in September 2014 to increase foreign direct investment (FDI) in 25 sectors. As of April 2015, FDI inflow in India increased by 48% since the launch of the "Make in India" initiative.

Identify the concept being described in the above lines, with regard to an inflow of FDI.

(a) Demonetisation

(b) Privatisation

(c) Liberalisation

(d) Globalisation

Answer: (c) Liberalisation

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6. The Union Cabinet has given an 'in-principle' nod to divest stakes in Air India, a wholly government-owned airline. This means the government is willing to shed a substantial portion of its stake and hand over the management of the ailing airline to the private sector. Identify the concept being described in the above lines.

- (a) Liberalisation
- (b) Privatisation
- (c) Globalisation
- (d) Demonetisation

Answer: (b) Privatisation

7. According to a report by the India Staffing Federation (ISF), India has emerged as the

fifth largest market worldwide in Flexi-staffing in 2018, and the country would have a 6.1 million Flexi-workforce by 2021. It showed that Haryana, Gujarat, Karnataka, Madhya Pradesh, and Telangana are the states with high growth potential for Flexi-staffing, but Andhra Pradesh tops the list of states with favourable business environments. Identify the features of the business environment being discussed above.

- (a) Relativity
- (b) Dynamic nature
- (c) Uncertainty
- (d) Interrelatedness

Answer: (a) Relativity

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8. India continues to be a lower-middle-income country along with 46 others, while Sri Lanka has climbed to the upper-middle-income group for the fiscal year (FY) 2020, according to the World Bank's classification of countries by income levels, released on July 1, 2019. Identify the related dimensions of the business environment.

- (a) Social dimension
- (b) Technological dimension
- (c) Economic dimension
- (d) Political dimension

Answer: (c) Economic dimension

9. India's population is expected to grow under 0.5 percent during 2031-41 due to a decline in fertility rate and an increase in life expectancy. These changes in India's demography will also have implications such as the proportion of elementary school-going children will witness significant declines, lack of hospital beds, and an increase in retirement age. The related feature of the business environment is described in the above lines is_____.

- (a) Totality of external forces
- (b) Dynamic nature
- (c) Interrelatedness
- (d) Relativity

Answer: (c) Interrelatedness

10. According to the World Health Organisation, 39% of adults are overweight. Over the last 40 years, the prevalence of obesity has tripled around the world. With over half of consumers drinking at least one sugary drink on a given day, regulations towards the beverage sector are likely to become increasingly onerous. In the U.K., for example, a sugar tax was introduced in 2018 on beverages

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containing more than 5% sugar. Identify the related dimensions of the business environment.

- (a) Legal dimension and Social dimension
- (b) Social dimension and Technological dimension
- (c) Technological dimension and Legal dimension
- (d) Political dimension and Technological dimension

Answer: (a) Legal dimension and Social dimension

11. As a result of major government initiatives, more and more people are going 'green'. In order to keep in line with the trend, 'Clapaway' a carpet cleaning company, has advertised that they only use natural cleaners that come from renewable resources and that all their service vehicles are hybrid vehicles that use both gas and electricity. Identify one of the points related to the importance of the business environment and its understanding by managers, which is being highlighted in the above case.

- (a) It helps in assisting in planning and policy formulation
- (b) It helps in coping with rapid changes
- (c) It helps in improving performance
- (d) It enables the firm to identify opportunities and get the first-mover advantage

Answer: (c) It helps in improving performance

12. 'Yo Tummy' began its business by offering the classic combo of hamburgers and fries. But over time, their customers wanted healthier foods, so 'Yo Tummy' responded and began offering healthy alternatives such as salads, fruits, wraps, and oatmeal. If 'Yo Tummy' hadn't responded, they may have lost customers that wanted to eat healthier foods. The above case highlights one of the points related to the importance of the business environment and its understanding by managers. Identify it.

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- (a) It helps in coping with rapid changes
- (b) It helps in improving performance
- (c) It helps the firm to identify threats and early warning signals
- (d) It enables the firm to identify opportunities and get the first-mover advantage

Answer: (a) It helps in coping with rapid changes

13. Electric vehicles with zero tailpipe emissions are emerging as a good alternative to problems like climate change, surging pollution leading to ill health, crude import bill, and energy security. Identify the related dimensions of a business environment.

- (a) Economic dimension, Legal dimension, and Social dimension
- (b) Social dimension, Political dimension, and Economic dimension
- (c) Economic dimension, Technological dimension, and Social dimension
- (d) Social dimension, Political dimension, and Legal dimension

Answer: (c) Economic dimension, Technological dimension, and Social dimension

14. The Economic Survey 2019 suggests that psychological biases can be used in the realm of tax compliance. It is in favour of using religious norms such as “dying in debt is a sin” to improve tax compliance. Identify the related dimensions of the business environment.

- (a) Legal dimension and Social dimension
- (b) Social dimension and Economic dimension
- (c) Technological dimension and Political dimension
- (d) Political dimension and Economic dimension

Answer: (b) Social dimension and Economic dimension

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15. In order to boost and double India's export of goods and services to over USD 1,000 billion by 2025, it is important to lower effective corporate tax rates, bring down the cost of capital and simplify regulatory and tax frameworks. Identify the related dimension of a business environment.

- (a) Social dimension and Legal dimension
- (b) Technological dimension and Political dimension
- (c) Political dimension and Social dimension
- (d) Economic dimension and Legal dimension

Answer: (a) Social dimension and Legal dimension

Meaning of Business Environment:

Business environment refers to forces and institutions outside the firm with which its members must deal to achieve the organisational purposes. Here

- Forces = economical, social, political, technological etc
- Institutions = suppliers, customers, competitors etc

It includes all those constraints and forces external to a business within which it operates. therefore,

- The firm must be aware of these external forces and institutions and
- The firm must be nagged keeping in mind these forces and institutions so that the organisational objectives are achieved. .ideo

Summary

Features of Business Environment

1. Totality of external forces: Business environment is the sum total of all the forces/factors external to a business firm.

2. Specific and general forces: Business environment includes both specific and general forces. Specific forces include investors, competitors, customers etc. who influence business firm directly while general forces include social, political, economic, legal and technological conditions which affect a business firm indirectly.

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- 3. Inter-relatedness:** All the forces/factors of a business environment are closely interrelated. For example, increased awareness of health care has raised the demand for organic food and roasted snacks.
- 4. Dynamic:** Business environment is dynamic in nature which keeps on changing with the change in technology, consumer's fashion and tastes etc.
- 5. Uncertainty:** Business environment is uncertain as it is difficult to predict the future environmental changes and their impact with full accuracy.
- 6. Complexity:** Business environment is complex which is easy to understand in parts separately but it is difficult to understand in totality.
- 7. Relativity:** Business environment is a relative concept whose impact differs from country to country, region to region and firm to firm. For example, a shift of preference from soft drinks to juices will be welcomed as an opportunity by juice making companies while a threat to soft drink manufacturers.

IMPORTANCE OF BUSINESS ENVIRONMENT

- 1. Identification of opportunities to get first mover advantage:** Understanding of business environment helps an organization in identifying advantageous opportunities and getting their benefits prior to competitors, thus reaping the benefits of being a pioneer.
- 2. Identification of threats:** Correct knowledge of business environment helps an organization to identify those threats which may adversely affect its operations. For example, Bajaj Auto made considerable improvements in its two wheelers when Honda & other companies entered the auto industry.
- 3. Tapping useful resources:** Business environment makes available various resources such as capital, labour, machines, raw material etc. to a business firm. In order to know the availability of resources and making them available on time at economical price, knowledge of business environment is necessary.
- 4. Coping with Rapid changes:** Continuous study/scanning of business environment helps in knowing the changes which are taking place and thus they can be faced effectively.
- 5. Assistance in planning and policy formulation:** Understanding and analysis of business environment helps an organization in planning & policy formulation. For example, ITC Hotels planned new hotels in India after observing boom in tourism sector.

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Helps in Improving performance: Correct analysis and continuous monitoring of business environment helps an organization in improving its performance.

Economic Environment in India

As a part of economic reforms, the Government of India announced New Economic Policy in July 1991 for taking out the country out of economic difficulty and speeding up the development of the country.

Main features of NEP, 1991 are as follows:

1. Only six industries were kept under licensing scheme.
2. The role of public sector was limited only to four industries.
3. Disinvestment was carried out in many public sector enterprises.
4. Foreign capital/investment policy was liberalized and in many sectors 100% direct foreign investment was allowed.
5. Automatic permission was given for signing technology agreements with foreign companies.
6. Foreign investment promotion board (FIPB) was setup to promote & bring foreign investment in India.
7. Various benefits were offered to small scale industries.

The three main strategies adopted for the above may be defined as follows:

1. Globalisation:

- Integrating the economy of a country with the economies of other countries to facilitate freer flow of trade, capital, persons and technology across borders. It leads to the emergence of a cohesive global economy.
- Till 1991, the Government of India had followed a policy of strictly regulating imports in value and volume terms. These regulations were with respect to (a) licensing of imports, (b) tariff restrictions and (c) quantitative restrictions.
- NEP '91 advocated rapid advancement in technology and directed trade liberalization towards:
 - a. Import Liberalisation
 - b. Export promotion towards rationalization of the tariff structure and
 - c. Reforms w.r.t foreign exchange

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2. Liberalisation:

= Liberalising the Indian business and industry from all unnecessary controls and restrictions. That is relaxing rules and regulations which restrict the growth of the private sector and allowing the private sector to take part in economic activities that were earlier reserved for the government sector. The steps taken for this were:

a. Abolishing licensing b. Freedom in deciding the scale of operations c. Removal of restrictions on movement of goods and services. d. Freedom in fixing prices. e. Reduction in tax rates and unnecessary controls f. Simplifying procedures for import and exports g. Making it easy to attract foreign capital.

3. Privatization:

- Refers to the reduction of the role of the public sector in the economy of a country.
- Transfer of ownership and control from the private to the public sector (disinvestment) can be done by : a. Sale of all/some assets of the public sector enterprises. b. Leasing of public enterprises to the private sector. c. Transfer of management of the public enterprise to the private sector.
- To achieve privatization in India, the government redefined the role of the public sector and –
 - a. Adopted a policy of planned disinvestment of the public sector
 - b. Refer the loss making and sick units to the Board of Industrial and Financial Reconstruction (BIFR)

DIMENSIONS/COMPONENTS OF BUSINESS ENVIRONMENT

1. Economic Environment: It has immediate and direct economic impact on a business. Rate of interest, inflation rate, change in the income of people, monetary policy, price level etc. are some economic factors which could affect business firms. Economic environment may offer opportunities to a firm or it may put constraints.

2. Social Environment: It includes various social forces such as customs, beliefs, literacy rate, educational levels, lifestyle, values etc. Changes in social environment affect an organization in the long run. Example: Now a days people are paying more attention towards their health, as a result of which demand for mineral water, diet coke etc. has increased while demand of tobacco, fatty food products has decreased.

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3. Technological Environment: It provides new and advance ways/techniques of production. A businessman must closely monitor the technological changes taking place in the industry as it helps in facing competition and improving quality of the product. For Example, Digital watches in place of traditional watches, artificial fabrics in place of traditional cotton and silk fabrics, booking of railway tickets on internet etc.

4. Political Environment: Changes in political situation also affect business organizations. Political stability builds confidence among business community while political instability and bad law & order situation may bring uncertainty in business activities. Ideology of the political party, attitude of government towards business, type of government-single party or coalition government affects the business Example: Bangalore and Hyderabad have become the most popular locations for IT due to supportive political climate.

5. Legal Environment: It constitutes the laws and legislations passed by the Government, administrative orders, court judgements, decisions of various commissions and agencies. Businessmen have to act according to various legislations and their knowledge is very necessary. Example: Advertisement of Alcoholic products is prohibited and it is compulsory to give statutory warning on advertisement of cigarettes.

MAJOR STEPS IN ECONOMIC FORMS

1. New Industrial Policy – Under this the industries have been freed to a large extend from licences and other controls. Efforts have been made to encourage foreign investment.

2. New Trade Policy – The Foreign trade has been freed from the unnecessary control. The age old restrictions have been eliminated.

3. Fiscal Reforms. The greatest problem confronting the Indian Govt. is excessive fiscal deficit.

(a) Fiscal Deficit – It means country is spending more than its income

(b) Gross Domestic Product (GDP) – It is the sum total of the financial value of all goods & services produced in a year in a country.

4. Monetary Reform – It is a sort of control policy through which the central bank controls the supply of money with a view to achieving objectives of general economic policy.

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5. Capital Market Reforms- The Govt. has taken the following steps for the development of this market:

- (1) SEBI has been established.
- (2) The restriction in respect of interest on debentures has been lifted.
- (3) Private Sector has been permitted to establish Mutual Fund.

6. Dismantling Price control – The govt. has taken steps to remove price control in many products especially in fertilizers, iron and steel, petro products.

Restrictions on the import of these things have also been removed.

IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY

1. Increasing Competition: De-licencing and entry of foreign firms Indian market is increased the level of competition for Indian firms.

2. More Demanding Customers: Now customers are more aware and they keep maximum information of the market as the result of which now market is customer/buyer oriented, Now, products are produced keeping in mind the demands of the customers.

3. Rapid Changing Technological Environment: Rapid Technological advancement has changed/improved the production process as a result of which maximum production is possible at minimum cost but it leads to tough challenges in front of small firms.

4. Necessity for Change- After New Industrial. Policy the market forces (demand & supply) are changing at a very fast rate. Change in the various components of business environment has made it necessary for the business firms to modify their policies & operations from time to time.

5. Need for Developing Human Resources: The changing market conditions of today requires people with higher competence and greater commitment, hence there is a need for developing human resources which could increase their effectiveness and efficiency.

6. Market Orientation: Earlier selling concept was famous in the market now its place is taken by the marketing concept. Today firms produce those goods & services which are required by the customers. Marketing research, educational advertising, after sales services have become more significant.

7. Reduction in budgetary Support to Public Sector: The budgetary support

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given by the government to the public sector is reducing thus the public sector has to survive and grow by utilising their own resources efficiently.