



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.

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 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 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.
- (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 Changing 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.

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

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