

Multiple Choice

Which of the following does not characterise the business environment?

1. Uncertainty
2. Employees
3. Relativity
4. Complexity

Ans. b. Employees.

Which of the following best indicates the importance of business environment?

1. Identification
2. Improvement in performance
3. Coping with rapid changes
4. All of them

Ans. (d) All of them.

Which of the following is an example of social environment?

1. Money supply in the economy
2. Consumer Protection Act
3. The Constitution of the country
4. Composition of family

Ans. (d) Composition of family

Liberalisation means

1. Integration among economies
2. Reduced government controls and restrictions
3. Policy of planned disinvestments
4. none of them

Ans. (b) Reduced government controls and restrictions.

Which of the following does not explain the impact of Government policy changes on business and industry?

1. More demanding customers
2. Increasing competition
3. Change in agricultural prices
4. Market orientation

Ans. (c) change in the agricultural prices

Short Answer Type

What do you understand by business environment?

Ans. The total of external economic, social, political, technological and political forces affecting the business and its operations is known as business environment.

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

Ans. Understanding the business environment is important for an organisation as it gives the following benefits:

1. Identifying opportunities
2. Tapping useful resources
3. Identifying warning signals
4. Assisting in planning and policy making
5. Coping with rapid changes Improving performance

Mention the various dimensions of business environment.

Ans. Dimensions of business environment:

1. Economic environment: Economic environment consist of gross national product, inflation rate, productivity, balance of payments etc.
2. Social environment: The social environment of the business includes the social forces like customs and traditions, values, social trends, society's expectations from business etc.
3. Technological environment: The technological environment includes new approaches to production and distribution of goods and services, new processes and equipment's etc.
4. Political environment: It consists of those elements that are related to governmental affairs
5. Legal environment: Every business has to function within the framework of laws and regulations of the country. Legal environment therefore has a very significant influence on business activities.

Briefly explain the following:

Liberalisation

Privatisation

Globalisation

Ans.

Liberalisation: It means deregulations and reduction of government control in the business and large number of firms in various sectors functioning freely and without too much licensing.

Privatisation: It means transferring of ownership from government to private sector. For example, Government of India has reduced its stake in various public sector undertakings and sold them to private sector.

Globalisation: It means the integration of the various economies of the world and helping companies of one country to do business in other countries.

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

Ans.The impact on business and industry as a result of

Government policy changes can be explained as follows:

1. More demanding customer – Customers today have become more demanding because they are well-informed. The market has become customer oriented, thus increasing competition in business. The customers have a wide choice in purchasing better quality of goods and services.
2. Increasing competition – With changes in government policy regarding rules of licensing & entry of foreign firms, Indian companies have to face all round competition from internal market as well as from MNCs. Companies with large resources and latest technology can survive.
3. Market orientation- In a dynamic business environment, there is a shift to market orientation in as much as the firms have to study and analyse the market first and produce goods accordingly.

4. Rapidly changing technological environment-Increased competition has brought about improvements in technology. Technological changes have improved production process, product and services. This has made the environment tougher for small organisations.
5. Need for developing human resources – New Market conditions require people with higher competence, skill and training. Hence, Indian companies feel the need to develop their human skills.

Long Answer Type

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

Ans. A business environment means the sum total of all individuals, institutions and other forces that are outside the control of an enterprise but may affect its performance.

It can be characterised as follows:

1. Totality of external forces- Business environment includes all forces, institutions and factors which directly or indirectly affect an organisation operating in it.
2. Specific and general forces- Specific forces in a business environment include customers, investors, competitors, suppliers etc. General forces which influence the environment are social, political, legal, technological conditions etc.
3. Dynamic Nature- Business environment is highly flexible and keeps changing continuously. Changes could be in customer preferences, technological advancements etc.
4. Complexity- The business environment consists of numerous and inter- related forces, hence it becomes difficult to comprehend the impact of the environmental forces on business. It becomes difficult to know the indirect impact of social, political, technological or legal factors on aspects of business.
5. Uncertainty- It is difficult to predict the changes in business environment, especially in case of rapidly changing aspects of environment, such as technological environment.

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

Ans. The significance of understanding the business environment is as follows –

1. Identifying opportunities – Scanning of business environment during initial stages helps the business in identifying the opportunities and gaining the first mover advantages.
2. Tapping useful resources – Business environment helps firms to obtain inputs & in selling their output. The environment provides various resources for running the business like finance, machines, raw materials, power and water, labour etc and also helps firms to sell their outputs such as goods and services to customers, to give taxes to government, give return on investment to investors etc.
3. Identifying warning signals – Threats from the environment refer to the trends & changes that may hinder business's performance. Analysis of business environment helps businessmen in dealing with the constraints or hurdles and act as warning signals.
4. Assisting in planning and policy making –The plans and policies in the organisation are formed keeping in mind the business environment as it helps in finding out the opportunities of business and policies can be made to grab these opportunities.
5. Coping with rapid changes – Business environment scanning helps companies to scan and understand the changes such as turbulent market conditions, less brand loyalty, changes in technology etc. Businessmen make changes in their internal environment to match the external environment.
6. Improving performance – Continuous analysis of business environment can help companies to improve their performance. By changing the internal environment in relation to the external environment, organisations can prosper and improve their market.

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

Ans. The dimensions of business environment are:

1. **Economic environment:** Economic environment consist of gross national product, inflation rate, productivity, balance of payments etc. Economic environment has a significant influence over organisational policies and actions. For example, rise in the disposable income of people due to increase in the gross domestic product of the country results in increase in the demand for products.
2. **Social environment:** The social environment of the business includes the social forces like customs and traditions, values, social trends, society's expectations from business etc. The main components of social environment are as follows:

Demographic trends, social attitudes, customs, rituals, cultures, etc., family structure and values.

1. **Technological environment:** The technological environment includes new approaches to production and distribution of goods and services, new processes and equipment's etc. Technological environment has a significant influence on business. For example: DTH facility provided by many companies like Tata Sky, Dish TV has adversely affected the cable TV operators.
2. **Political environment:** It consists of those elements that are related to governmental affairs i.e. the type of government, government attitude towards various industries etc. For example, IT companies have found Hyderabad to be the most hospitable location primarily due to the supportive political climate.
3. **Legal environment:** Every business has to function within the framework of laws and regulations of the country. Legal environment therefore has a very significant influence on business activities. Non-compliance of laws can land the business into legal problems. For example, a publishing company has to follow the law governing copyright.

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

Ans. The economic reforms announced by Government of India in 1991 were:

1. Reduction in the number of industries under compulsory licensing to six.
2. Many of the industries reserved for the public sector under the earlier policy, were deserved.
3. Disinvestment of public sector industrial enterprises.
4. Increasing the foreign equity participation.
5. Establishment of Foreign Investment Promotion Board (FIPB) to promote and channelize foreign investment in India.

Appropriate measures were taken to remove obstacles in the way of growth and expansion of commerce and trade. The economic reforms were brought about through-Liberalisation, Privatisation and Globalisation. Liberalisation refers to removal of licencing raj to liberate the Indian businesses from unnecessary restrictions and controls, through abolishing licensing requirements of various industries, reduction of taxes and removal of restriction of movement of goods and services. Privatisation is aimed at giving greater role to the private sector in the nation building process and a reduced role to the public sector. This was to be brought about through disinvestment, which is the process of dilution of stake of Government in public sector undertakings beyond 51%. Globalisation was aimed at encouraging foreign private participation in India's industrial development, through import liberalisation, export promotion and rationalization of tariff structure.

What are the essential features of

1. Liberalisation:
2. Privatisation and
3. Globalisation?

Ans. Liberalisation: It means deregulations and reduction of government control in the business and large number of firms in various sectors functioning freely and without too much licensing. Measures of promoting economic liberalisation are:

1. Abolition of license in most of the industries.
2. No restriction on the expansion of business activities.
3. Freedom to private organisations for fixing their prices.
4. Freedom to import and export.

Privatisation: It means transferring of ownership from government to private sector. For example, Government of India has reduced its stake in various public sector undertakings and sold them to private sector. Measures promoting privatisation are:

1. Selling public sector undertakings to private companies and individuals.
2. Reducing the government stake in government companies.
3. Opening up sectors to private companies, which were exclusively reserved for government companies.

Globalisation: It means the integration of the various economies of the world and helping companies of one country to do business in other countries. Measures promoting globalisation are:

1. Removing restrictions from imports.
2. Simplification of tariff structure.
3. Abolition of export duty.
4. Reduction in import duty.

Case Studies:

Lately many companies have planned for significant investment in organised retailing in India. Several factors have prompted their decisions in this regard. Customer 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 percent foreign direct investment in some sectors of retailing.

Questions

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. The changes in business environment in different dimensions are:

1. Social Environment: 'People have developed a taste for better quality products even though they may have to pay more. The aspiration levels have increased.'
2. Economic environment: 'Customer income is rising.'
3. Political environment: 'The Government has liberalised.'
4. Legal environment: 'The government has also liberalised its economic policies in this regard and permitted even cent percent foreign direct investment in some sectors of retailing.'

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

Ans. These changes have positive impact. As increase in customer income will increase the purchasing power which in turn will raise the standard of living of people. FDI will increase the foreign exchange in the country that will help in the development of a country.

