**CHAPTER - 3**

**BUSINESS ENVIRONMENT**

Q1. \_\_\_\_\_\_\_\_\_\_\_\_ consists of various macro-level factors related to the means of production and distribution of wealth which have an impact on business and industry. (1)

(a) Economic environment

(b) Political environment

(c) Social environment

(d) Legal environment

Q2. \_\_\_\_\_\_\_\_\_\_\_\_ is considered an element of social environment. (1)

(a) Expansion of transportation and communication facilities

(b) Expectations from the workforce

(c) The extent and nature of government interventions in business

(d) Rate of saving and investment

Q3. Identify the business environment by the picture given. (1)

(a) Social environment

(b) Political environment

(c) Legal environment

(d) Economic environment



Q4. Many businesses are using social media like facebook and twitter to promote themselves. This is an example of which dimension of business environment: (1)

(a) Social

(b) Economic

(c) Legal

(d) Technological

Q5. Liberalisation means \_\_\_\_\_\_\_\_\_\_\_. (1)

(a) Integration among economies

(b) Reduced government controls and restrictions

(c) Policy of planned disinvestment

(d) None of the above

Q6. Non- discriminatory employment practices is an example of \_\_\_\_\_\_\_\_\_\_\_\_ environment of business. (1)

(a) Economic

(b) Social

(c) Political

(d) Legal

Q7. \_\_\_\_\_\_\_\_ refers to negative and unfavourable external factors that are likely to create hurdles for a firm. (1)  
(a) Opportunities  
(b) Warning  
(c) Threats  
(d) None of these

Q8. Business environment constitutes of the factors which \_\_\_\_\_\_. (1)

(a) The business has control

(b) The business has no control

(c) Influence the business

(d) Both (b) and (c)

Q9. Change in one factor due to the change in another factor highlights the \_\_\_\_\_\_\_ feature of the Business environment. (1)

(a) Uncertainty

(b) Dynamic nature

(c) Complexity

(d) Interrelatedness

Q10. Levi, fast food shop owner, experienced reduced sales after a healthcare campaign in their city. It was so sudden and unexpected for him. Out of the following features of the business environment, please select the one which is responsible for it. (1)

(a) Inter-relatedness

(b) Uncertainty

(c) Complexity

(d) Both (a) and (b)

Q11. What is meant by business environment? Explain dynamic nature and uncertainty as features of business environment. (3)

Q12. Explain the following terms: (3)

(a) Liberalisation

(b) Privatization

(c) Globalisation

Q13. State the impact of demonetization on interest rates, private wealth and real estate. (3)

Q14. Write a short note on :- (3)

(a) Political environment

(b) Economic environment

Q15. Why it is important for business enterprises to understand their environment? Explain. (4)

Q16. The court passed an order that all schools must have water purifiers for the school children as

* Society in general is more concerned about quality of life.
* Innovative techniques are being developed to manufacture water purifiers at competitive rates.
* Incomes are rising and children at home are also drinking purified water.
* The government is also showing positive attitude towards the water purifier business.

Identify the different dimensions of business environment by quoting from the above details. (4)

Q17. Management of every enterprise can be benefited from being aware of different dimensions of business environment. Explain any four such dimensions.

(4)

Q18. How would you characterise business environment? Explain, with examples, the difference between general and specific environment. (6)

Q19. The government of India announced Demonetization of ₹ 500 and ₹ 1,000 currency notes with effect from the midnight of November 8, 2016. As a result, the existing ₹ 500 and ₹ 1,000 currency notes ceased to be legal tender from that date. New currency notes of the denomination of ₹ 500 and ₹ 2,000 were issued by Reserve Bank of India after the announcement.

The step resulted in a substantial increase in the awareness about and use of Point of Sale machines, e-wallets, digital cash and other modes of cashless transactions. Also, increased transparency in monetary transactions and disclosure led to a rise in government revenue in the form of tax collection.

(a) Enumerate the dimensions of business environment highlighted above.

(b) State the features of Demonetization. (6)

Answers

Ans 1. (a) Economic environment

Ans 2. (b) Expectations from the workforce

Ans 3. (c) Legal environment

Ans 4. (d) Technological

Ans 5. (b) Reduced government controls and restrictions

Ans 6. (b) Social

Ans 7. (c) Threats

Ans 8. (d) Both (b) and (c)

Ans 9. (d) Interrelatedness

Ans 10. (d) Both (a) and (b)

Ans 11. Business environment is the sum total of all individuals, institutions and other forces like customers, competitors, suppliers, distributors, industry trends, substitutes, regulations government activities, social and cultural factors that are outside the control of the business enterprise but may affect its performance.  
Features of business environment are:  
Dynamic nature : Business environment is dynamic as it keeps on changing. It is not static and its components are highly flexible, e.g. technological improvements, increase in competition, etc.  
Uncertainty :  Business environment is uncertain as it is difficult to predict future happenings when environment changes are taking place frequently.

Ans 12. (a) Liberalisation - Liberalisation is the process or means of the elimination of the control of the state over economic activities. It provides greater autonomy to the business enterprises in decision-making and eliminates government interference. The purpose of liberalisation is to increase competition between enterprises. It also encourages foreign trade between countries. It also helps the business expand its global footprint. The opening up of the economy improves the economic development of a nation by the inflow of funds from foreign resources.

(b) Privatization - Privatisation can be explained as the process of transfer of ownership from the public sector to the private sector. It is also known as Disinvestment in business. Privatisation aims at reducing government ownership in industries. It reduces the workload on the public enterprises and also paves the way for economic development by encouraging foreign direct investment (FDI).

(c) Globalisation - Globalisation can be understood as the integration of the national economy with the world economy. It represents a free flow of information, technology, goods and services, ideas, capital, and even people as a form of resources across different countries. Globalisation helps in improving t cross border connectivity between different markets in the form of investments, trade, and cultural exchanges.

Ans 13. Demonetisation had the following effect on these sectors :

1. Interest rates: As demonetisation happened, the number of cash transactions reduced; bank deposits increased in the form of Jan Dhan Accounts. More financial savings by the people of the nation.

2. Private Wealth: Private wealth saw a decline as large-volume transactions were not possible with old notes.

3. Real Estate: Demonetisation led to a decline in real estate prices. The real estate industry witnessed a huge drop in business.

Ans 14. (a) 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.

(b) 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.

Ans 15. In the present day of competitive market, it is essential for a business to remain alert and aware of its environment, because of the following points:  
(i) Identify opportunities and getting the first mover advantage - Awareness of environment helps an enterprise to identify the opportunities prevailing in the market and they can make strategies to capitalize such opportunities at the earliest, e.g. Maruti Udyog became the leader in the small car market because it was the first, who recognized the need for small cars in the environment.  
(ii) Identify threats and early warning signals - Environmental awareness helps an enterprise in identifying possible threats in future, so that the enterprise can take timely measures to minimise the threats and its adverse effects, if any, e.g. when the new firms entered in the mid segment cars (threat), Maruti Udyog increased the production of its Esteem car. The increase in production enabled the company to make faster delivery. As a result, the company captured a substantial share of the market and became a leader in this segment.  
(iii) Assist in planning and policy formulation - Environment awareness helps a business unit to identify opportunities and threats in the market. These serve as a basis for planning future course of action and making policies for the same.  
(iv) Tapping useful resources - A business environment is an open system which gets resources such as capital, labour, machines, materials, etc from the environment, converts them into goods and services desired by the customers and then supplies its output to the environment. Thus, a business firm depends on its external environment for tapping various resources and for the sale of its output.

Ans 16. The court passed an order that all schools must have water purifier’.  
The quoted line is depicting legal environment. Business has to function within the framework of laws and regulations of the country. Legal environment exercises significant influence on business activities.  
(i)*‘Society in general is more concerned about quality of life’.*  
The quoted line is depicting the social environment as this environment consists of all the social and cultural forces within which business firms operate  
(ii)*‘Innovative techniques are being developed to manufacture water purifiers at competitive rates’.*The quoted line is depicting the technological environment. It includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services.  
(iii)*‘Incomes are rising and children at home are also drinking purified water’.*  
The quoted line is depicting the economic environment. It consists of the factors and forces concerning means of production and distribution of wealth. It includes all such forces of economic development which influence the product’s market scope of business.  
(iv)*‘The government is also showing positive attitude towards the water purifier business’.*  
The quoted line is depicting the political environment. It is concerned with the forces related with political stability, and political conditions that have strong impact on business.

Ans 17. Dimensions of business environment are as follows :  
(i) Economic environment - It consists of economic factors that influence the business in a country. These factors include Gross National Product, corporate profits, inflation rate, employment, Balance of Payments, interest rates, consumer income, etc. Economic environment in a country has strong influence on the business in that country.  
(ii) Social environment - It describes the characteristics of the society in which the organisation exists. Literacy rate, customs, value beliefs, life style, demographic features and mobility of population are the part of the social environment. The trend of change can be predicted well in advance. It is important for managers to notice the direction in which the society is moving and formulate progressive policies according to the changing social scenario.  
(iii) Political environment - It is the outcome of a combination of various ideologies advocated by different political parties. Every political party has a different attitude towards business community. A live example of this, can be seen during elections when there is a fluctuation in the share market.  
(iv) Legal environment - It consists of legislation that is passed by the Parliament and state legislatures. This component sets the framework of law within which the business is free to operate. Example of such legislation specifically aims at business operations which include the Trade Marks Act, 1969, Essential Commodities Act, 1955, Standards of Weights and Measures Act, 1969 and Consumer Protection Act, 1986.

Ans 18. The sum of all the forces (external, institutions and individuals) that are outside the control of a business organisation is referred to as the business environment. The forces mentioned here can be of varied nature, such as social, economic, political, legal or technological. The organisation is unable to control such types of forces, but it can definitely have a positive or negative impact on their performance.

The following are the characteristics of the business environment: (any four)

1. Business environment is the sum total of all external forces, which includes individuals, government, and consumers. These have an impact on the business performance that is either positive or negative.

2. The different forces that have an impact on the business environment are interrelated. This interrelation has an effect on the business environment. For e.g., if there is an increase in the annual income of the consumers, they are more likely to purchase goods that fulfil all their demands, and this leads to an increase in demand for electric appliances, mobile phones, gadgets etc.

3. Business environment is constantly evolving and therefore is dynamic in nature. This can be explained as we see changing trends in consumer behaviour, technology and policies of the government.

4. The business environment is an uncertain territory. The changes in the market dynamics cannot be predicted easily. Due to this, there exists uncertainty.

5. Business environment is the sum total of all interrelated dynamic forces. Hence, it is somewhat complex and difficult to understand. All the factors like social, political, technological, etc., have an effect on the performance of the organisation. It can be easy to ascertain the individual impact of all the forces; it can be difficult to determine their cumulative effect.

6. Business environment varies with each region and hence is relative. The reason behind the variation in the business environment is that the forces that determine the nature of the business environment are dynamic in nature and therefore change as per region.

--->Specific environment is said to be the external forces that play a role in functioning of an organisation directly. These forces are specific to a particular organisation or an enterprise. Specific environment is unique to a industry and has an impact on how the day to day business is run. For example, change in price of a raw material required for production will result in less demand and abundant supply of raw materials has a direct impact on the production of the company.

--->General Environment comprises of all the forces that has an impact on all organisations irrespective of the type of industry. These forces do not differentiate between the industries or types of business. They have a cumulative effect on the organisation’s performance. For example, a new technology for communication will have a impact on the quality and quantity of production or if there is a change in government then it will have an effect on all organisations.

Ans 19. (a) The following dimensions of the business environment are seen to be highlighted here:

1. Political: The government announced the demonetisation of the ₹ 500 and ₹ 1,000 currency notes with effect from midnight of November 8, 2016. It is a step by the government to curb the illegal use of money by some entities.

2. Legal: 500 and ₹ 1,000 currency notes stopped being the legal tender, and ₹ 500 and ₹ 2,000 became the new legal tender.

3. Technological: As demonetisation happened, there was a shortage of cash, which encouraged the use of digital forms of payment in the form of e-wallets like Paytm and other modes of cashless transactions.

(b) The following are the features of demonetization:

1. Demonetization was done with the intention of exposing black money holders and those who evade tax.

2. Increase in savings of people. Earlier more people used to keep money at home rather than at the bank, and this step resulted in savings in the bank.

3. It helped in reducing the interest rates in banks.

4. To popularize the use of digital payments and reduce fraud.