

CBSE Test Paper - 04
Chapter -3 Business Environment

1. Which of the following creates fear in the minds of investors? **(1)**
 - a. Technological improvements
 - b. New innovations
 - c. None of these
 - d. Political uncertainty

2. The complete awareness and understanding of business environment is called _____ **(1)**
 - a. Privatisation
 - b. Environmental Scanning
 - c. Liberalisation
 - d. Technological advancement

3. Through Environmental scanning a business firm can enjoy the _____ **(1)**
 - a. Benefit of taxes
 - b. Last Mover Advantage
 - c. Competition
 - d. First Mover Advantage

4. Facebook, Twitter and Whatsapp is the result of _____ **(1)**
 - a. Technological Environment
 - b. Social Environment
 - c. Political Environment
 - d. None of these

5. How can political stability be beneficial to the economy? **(1)**

6. How have customers benefited by increased competition after liberalisation and globalisation? **(1)**

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7. What do you mean by Innovation? **(1)**
 8. How can environment awareness help managers? **(1)**
 9. Explain any three features of Business Environment. **(3)**
 10. Mention the various dimensions of business environment. **(3)**
 11. Briefly discuss the impact of Government policy changes on business and industry. **(4)**
 12. 'Equal pay for equal work for male and female workers' refers to an example of a key component of the social environment of business. Name and explain the component. **(4)**
 13. What do you understand by economic environment? List the main aspects of economic environment. **(5)**
 14. Explain any five ways in which managers have responded to changes in business environment. **(5)**
 15. What economic changes were initiated by the Government under the Industrial Policy, 1991? What impact have these changes made on business and industry? **(6)**

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Answer

1. d. Political uncertainty

Explanation:

The political stability builds up the confidence among business people to invest in long term plans. Political instability can shake that confidence.

2. b. Environmental Scanning

Explanation:

Environment scanning is the process by which organisations monitor their relevant environment to identify opportunities and threats. It finds out the influence of different factors and persons on the business.

3. d. First Mover Advantage

Explanation:

Under environment scanning the businesses do their SWOT analysis. It provides the complete awareness and understanding of business environment. Thereby the businesses can take the first mover advantage.

4. a. Technological Environment

Explanation:

Technological environment includes change in the methods of production, use of new equipment and machineries to improve the quality of product, recent technological advancement in computers and electronics and internet/ World Wide Web etc.

5. Political Stability gives confidence to the business people to invest and take up new ventures.
6. While purchasing the Customers get better quality and a wider choice of goods and services as they have the liberty to choose beyond the boundaries of their nation.
7. Innovation means the Production of goods and services by new methods.

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8. Environmental awareness helps managers by identifying various threats on time.
9. Features of business environment are:
- i. **Totality of External Forces:** Business environment is the sum total of all external factors and forces that influence the functioning of a business firm. In other words, it is the sum total of all individuals, institutional and other forces that are uncontrollable and affect its performance.
 - ii. **Specific and general forces:** It covers factors and forces like customers, competitors, suppliers, government, and the social, cultural, political, technological and legal conditions. Business environment includes both specific and general force, e.g.; specific forces i.e. customers, suppliers, investors and competitors etc. affect day to day working of a business firm directly and immediately, general forces i.e. political, social, legal and technological factors etc. affect business environment.
 - iii. **Business Environment is Dynamic:** Business environment is dynamic and perpetually evolving. It changes frequently due to various external forces i.e. economic, political, social, international, technological and demographic. Such dynamism in the environment brings continuous change in its character. Business enterprises have no alternative but to operate under such dynamic environment. The only remedy is adjust business as per environmental changes.
10. Various dimensions of business environment are:
- i. Economic environment, which includes factors like inflation, interest rates, disposable income etc.
 - ii. Social environment, which includes factors like traditions, values and customs.
 - iii. Political environment, which includes political condition of the country and attitude of its government.
 - iv. Technological environment, which includes changes in the method of production and use of equipment for improvement in products.
 - v. Legal environment, which includes legislations passed by government, court judgements, decisions rendered by commissions and agencies at various levels of

government.

11. Governments establish many regulations and policies that guide businesses. Some rules, like minimum wage, are mandatory, while other policies may influence your business indirectly.

Impact of government policy changes on business and industries are:

- i. Competition for Indian firms has increased especially in service industries like airlines, telecommunications, insurance and banking etc.
- ii. The rapid changing technology creates tough challenging environment for smaller firms.
- iii. Development of human resources because the new market conditions requires people with higher competence and greater commitment.
- iv. Loss of budgetary support to the public sector
- v. Market orientation is necessary for the survival and growth of a business firm.

12. Social Environment.

- i. The social environment of a business refers to the broad characteristics of the society in which a business enterprise operates.
- ii. The social environment of business includes social forces like customs and traditions, values, social trends, society's expectations from business, etc. Social values and attitudes are changing very fast. For example, Indian women are increasingly engaging themselves in business, profession, and employment.
- iii. For example, the celebration of Diwali, Id, Christmas, and Guru Parv in India provides significant financial opportunities for greetings card companies, sweets or confectionery manufacturers, tailoring outlets and many other related businesses.
- iv. For example, health awareness among Indians has created demand for ayurveda and yoga products. Thereby the rapid rise of indigenous company Patanjli Ayurveda Ltd.

13. Economic environment consists of factors like inflation rates, interest rates, consumer's incomes, economic policies, market conditions etc. which affect the performance of a business firm. In other words, Economic environment is the total of

economic factors, such as employment, income, inflation, interest rates, productivity, and wealth, that influence the buying behavior of consumers and institutions.

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. Increase in transportation and communication facilities.
- iv. Quantum of exports and imports of different products.
- v. Trends in agricultural and industrial productions.
- vi. Amount of savings and investments.

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

- i. Strategic alliances, 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.
- ii. Diversification spree: Managers are leading in the 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 they need to expand.
- 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 the building of brands. The focus is on securing prime positions for their brands, through creative media-mix, in the minds of consumers.
- v. The capital structure of companies has changed more to equity than debt. This is because in the past equity was dominant but thanks to crooks in the stock markets, they have shaken the investors' confidence by so many false new issues in the past, companies now have to rely more on debt than equity. Indian companies such as Reliance have also started moving towards the global market

for equity and debt capital.

15. Economic changes initiated by the government:

Impact of the above changes:

- i. The government reduced the number of industries under compulsory licensing to six.
- ii. Role of the public sector was reduced.
- iii. Disinvestment was carried out in case of many public sector industries.
- iv. Policy towards foreign capital was liberalized. The share of foreign equity participation was increased and in many activities 100 percent FDI was permitted.
- v. Automatic permission was now granted for technology agreements with foreign companies.
- vi. Foreign Investment Promotion Board was set up for the promotion of foreign investment in India.
- vii. **Increasing Competition:** These days' Indian firms are facing cut throat competition not only from the domestic firms but also from the MNCs (Multinational Companies). The competition has increased especially in the service industries i.e. insurance, banking, telecommunications, airlines etc. a large number of small scale units have closed down due to economic reforms.
- viii. **Increase in Consumerism:** Due to increase in competition customers' demand is changing time to time because of availability of better quality goods and service in the market. This is the positive effect of economic reforms that customers have become more demanding these days. All business firms are following the concept of customer satisfaction by providing them proper information about the use and features of the product.
- ix. **Expansion of foreign trade:** Due to economic reforms, there is increase in India's foreign trade. The scope of import and export is wider now because of EXIM Policy (Export Import Policies). Change in government policies have played import role in promoting exports and substitution of imports
- x. **Technological advancement:** There is a rapid change in the technological environment. Companies are upgrading their technology to meet the competition. By using advance technology companies provide better quality goods at lower cost and maintains their foothold in the market. There is challenge for Small firms to

survive in this competition because they cannot afford the high cost of advance technology.

- xi. **Market Orientation:** Before producing any product it is important to understand the need and taste & Preference of consumers. A systematic and in depth study should be undertaken to obtain useful data to determine the demand and supply position for a particular product or service in the market. Such a research will help in getting new ideas for products and services.
- xii. **Entry of New Players:** The economic reforms encouraged the emergence of new companies, services and manufacturing Industries and the Elimination and Outsourcing of Non-Value-Added Services.
- xiii. **Necessity for change:** Prior to economic reforms the business environment was quite stable. Plans and policies formulated by a business used to continue for a long period to time. But after reforms, it is difficult to continue with the same plans and policies. Now a days, continues change in plans and policies is required due to increased competition in the market. A business enterprise must modify its policies time to time to meet the requirement of changing environment.