

CBSE Test Paper - 05
Chapter -3 Business Environment

1. Which of the following does not characterise the business environment? **(1)**
 - a. Relativity
 - b. Complexity
 - c. Employees
 - d. Uncertainty
2. Increased competition in the market will _____ **(1)**
 - a. Increase the cost of production
 - b. Increase the tax
 - c. Reduce the profit margin
 - d. Increase the profit
3. Liberalisation means **(1)**
 - a. Integration among economies
 - b. Reduced government controls and restrictions
 - c. None of them
 - d. Policy of planned disinvestments
4. Celebration of Diwali is the example of: **(1)**
 - a. Technological Environment
 - b. Social Environment
 - c. Political Environment
 - d. Legal Environment
5. Which two factors are included in Technological Environment? **(1)**
6. There is a difference between the operating environment in India and other countries. India offers many advantages to the outsourcing firms in terms of lowered costs and access to a wide talent-base.
Identify the feature of the business environment being discussed above. **(1)**
7. Business Environment includes both 'specific and general forces'. List any four general forces. **(1)**
8. "The understanding of Business Environment enables the firm to identify-opportunities." What is meant by 'opportunities' here? **(1)**

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9. Mention five examples of acquisitions and mergers. **(3)**
10. “Demand for reservation in jobs for minorities” refers to an example of key component of the general environment of business, Name and explain the component. **(3)**
11. 'Explain 'fiscal reforms' and 'monetary reforms' as per economic change initiated by Government of India since 1991. **(4)**
12. When government policy changed, it laid some positive and negative impact on the business. Discuss some of them. **(4)**
13. Anurag, aspires to work with a socially and environmentally committed company as he does not want to work just for monetary benefits but also the brand value of the company he works for in the society matters a lot to him. Therefore, he has joined Cerebra Integrated Technologies a Bengaluru-based Infotech company. The company has built India's largest e-waste recycling plant. The company strives to be one of the leading players in this business which has the huge potential not only in terms of generating huge revenues and profits but also wants to contribute to the environmental issues that have become crucial worldwide. The company sees big business in the mountains of e-waste in Bengaluru which produces 200,000 tonnes of e-waste a year. The company plans to make its millions by extracting metals such as gold and platinum from the e-waste piling up in the city. As a mobile phone, for example, is made up of a combination of rare earth and precious metals: it contains 250 mg of silver, 24 mg of gold and nine mg of palladium while a laptop has 1,000 mg of silver, 220 mg of gold and 500 grams of copper. To start the business, the company has obtained a license from KSPCB (Karnataka State Pollution Control Board).
- In context of the above case:
Identify the various dimensions of the business environment being referred to by quoting lines from the paragraph. **(4)**
14. Social environment of business is important for a business enterprise. Explain? **(5)**
15. How would you characterise business environment? Explain, with examples, the difference between general and specific environment. **(6)**

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Answer

1. c. Employees

Explanation:

Employees are an integral part of business.

Whereas A customer, investor, competitors etc are the specific forces which affects the business environment.

Specific and general forces, Uncertainty, Relativity and Complexity are the main features of business environment.

2. c. Reduce the profit margin

Explanation:

Increased competition may lead efficiency and effectiveness in utilisation of resources. As well as it compelled the manufacturers to reduce their margin of profit. So that they can stay in competition for long period.

3. b. Reduced government controls and restrictions

Explanation:

Liberation refers to removing licence, quota, permits and other restrictions and controls. Liberalization reduces the control of government and encourages private participation

4. b. Social Environment

Explanation:

Social environment refers to all the characteristics of society in which business operates. It includes the customs and traditions of the society, standard of living, taste, preferences etc. The Diwali increases the sale of sweets, crackers and clothes. Thus effects the business and comes under social environment.

5. The two factors included in Technological Environment are Scientific Improvement and Innovations.
6. Complex is the feature of the business environment being discussed above. A business environment has a plethora of factors, events, conditions, and influences arising from a variety of sources. Therefore, it is very difficult to understand all the factors

affecting a given environment at any time. Although we can understand it in parts, it is impossible to grasp it in totality.

7. **Social, Political, Legal and Technological conditions.** They affects business indirectly.
8. Opportunities here refers to the positive external trends or changes that will help a firm to improve its performance.
For example Nerolac company used the opportunity and signed a contract with Kansai Paint Company to import car painting technology and signed another contract with Maruti Company.
9. Five 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.
 - v. Microsoft and Skype.
 - vi. Trans Canada and Columbia Pipeline Group.
10. The demand for reservation in jobs for minorities is because of “Social Environment”. Social environment is uncontrollable force which affects the performance of an enterprise. Social environment includes social forces i.e. customs, values, social-trends, traditions and society’s expectations from business etc. It includes the culture that the individual was educated or lives in, and the people and institutions with whom they interact.
If any business organization does not adapt the social environment then it will lead to the dissatisfaction among its customers and rejection of its products.
11. i. 'Fiscal Reforms' as per economic change initiated by Government of India since 1991 are as follows :
 - Government of India has taken measures to bring down the fiscal deficit.
 - Tax reforms have been initiated to increase revenue and tax compliance.
 - Direct and indirect taxes have been reduced.
 - Subsidies have been decreased.
 - A key element in the stabilization effort was to restore fiscal discipline.
- ii. 'Monetary Reforms' as per economic change initiated by Government of India since 1991(Phased reduction of statutory liquidity ratio (SLR)) are as follows:

- Private sector banks are allowed to set up new branches.
- Banks have now been allowed to access the capital market for raising capital.
- The government has given Permission for disinvestment (up to 49% of total equity).

12. Positive impacts of government policy changes are:

- Market orientation:** Earlier production was done and whatever was produced was sold but with the New Industrial Policy leading to increased competition, there is a shift towards customer orientation, where study and analysis of market is done before anything is produced, so that the products are according to the needs and demands of customers.
- Development of human resource:** The new market conditions require people with higher competence and greater commitment. This has necessitated the development of human resources.

Negative impacts of government policy changes are :

- Increasing competition:** With the opening of the economy, globalisation, entry of foreign firms in the country, it has increased competition for domestic players, as they have to compete with them MNCs are at an advantage due to large financial resources, technological advancement and branded goods, thus posing a serious challenge and threat to domestic players.
- Rapidly changing technological environment:** Due to increased competition technological advancements are taking very fast. This is specifically a disadvantage to small firms who are not able to cope up with these changes and sometimes are even forced to shut down their business.

13. **The various dimensions of the business environment being referred to in the above case are as follows:**

- Economic Environment** comprises of factors that can affect management practices in a business enterprise. It includes interest rates, inflation rates, changes in disposable income of people, stock market indices and the value of rupee etc.
- Social Environment** includes social forces like customs and traditions, values, social trends, society's expectations from business, etc.
- 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 business.

- d. **Political Environment** includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives to hold towards business.
 - e. **Legal Environment** includes various legislation passed by the Government administrative orders issued by government authorities, court judgments as well as the decisions rendered by various commissions and agencies at every level of the government— centre, state or local.
14. A business is a part of the society in which it operates. A business is subject to an external social environment and also its own internal social environment. The external social environment provides both risks and opportunities for a business. However, it's also important for a business not to become too socially cohesive and fall into the trap of groupthink. 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 for male and female workers, demand for reservation in jobs for minorities and women etc
15. 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. **Inter-relatedness:** Different elements or parts of business environment are closely inter-related. In simple words, all the external forces and other factors of business environment are inter-related to each other. Change in one factor affects the other factor. For example; Increase in awareness for health care has increased the demand for many health products i.e. sugar-free products, organic food, fat free cooking oil, roasted snacks and diet Coke, change in the taste and preference young generation i.e. demand for fast food is increasing in India.

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- iii. **Dynamic Nature:** Business environment is dynamic in nature because it keeps on changing. For example; new competition in the market, technological improvement or development, change in taste and preference of consumers, change in industrial policy etc.
 - iv. **Uncertainty:** Business environment is complex and uncertain because it is difficult to predict the future events and happenings. For example; it is difficult for a garment manufacturing company to predict the change in fashion, change in information technology i.e. windows 7, windows 8, MS Office 2007, MS Office 2010, MS Office 2013 etc.
 - v. **Relativity:** The impact of business environment may differ from country to country, region to region and business to business. A multinational business firm should keep pace with these changes while formulating its strategies and policies for different countries. For example; Technology level is different in India, China, Pakistan and Japan. If Indian government shifts preference from manual work to computerized work in every department. It will be welcomed as an opportunity by the Indian IT companies.

General and Specific Environment **General environment:** It includes the broad economic, political/legal, socio-cultural, demographic, technological, and global conditions that affect an organization, although these external forces do not affect the organizations to the extent that changes in their specific environment do, organizations must consider them as they plan, organize, lead and control. **Specific environment:** It includes external forces that directly impacts organizations' decisions and actions and are directly relevant to the achievement of organization's goals. An organization's specific environment is unique to it. For instance, Timex and Rolex both make watches, but their specific environments differ because they operate in distinctly different market niches. The main forces that make up the specific environment are customers, suppliers, competitors and pressure groups.