

## 7. Business Environment

**Q.1 A) Select the correct option and rewrite the sentence.**

1) Business environment has tremendous impact on .....

(a) **business** (b) government (c) society

2) The new Industrial policy was formulate in .....

(a) 1947 (b) 1951 (c) **1991**

3) Changes in ruling government is an aspect of ..... environment.

(a) **political** (b) technological (c) economic

4) Literacy level is an aspect of ..... environment.

(a) **social** (b) legal (c) political

5) Privatization implies reduction in the role of ..... sector.

(a) **public** (b) private (c) foreign

6) Globalization is concerned with ..... market.

(a) **global** (b) local (c) rural

7) ..... means linking national economy to the world economy.

(a) **Globalization** (b) Privatization (c) Liberalization

8) Environment awareness provides ..... signal.

(a) **warning** (b) alarming (c) soft

**B) Match the pairs. (Answers)**

1

Sr. no.	Group A	Answers
1)	Globalization	<b>Borderless economy</b>
2)	Privatization	<b>Disinvestment</b>

3	Liberalization	<b>Abolishing License policy</b>
4)	New economic policy	<b>1991</b>
5)	Social environment	<b>Social values</b>

**2**

Sr. no.	Group A	Answers
1)	Internal environment	<b>High cost</b>
2)	Political environment	<b>Ideology of political party</b>
3)	Legal environment	<b>Taxation policy</b>
4)	Economic environment	<b>Technology</b>

**C) Write a word or a term or a phrase which can substitute each of the following statement.**

1) Uncontrollable factors of the business environment.

**Ans: External business environment.**

2) The environmental of business that includes customs and traditions, values, social trends.

**Ans: Social environment.**

3) The process of transferring ownership of business enterprise, agency or public service from the public service to private sector.

**Ans: Privatisation.**

4) A boundary less worlds where there would be flow of goods, services, information, capital and people across nation.

**Ans: Globalization.**

**D) State whether the following statements are True or False.**

1) External factors of business environment are controllable factors.

**Ans: False**

2) Business is the product of different environmental factors.

Ans: **True**

3) Business and environment are inseparable parts.

Ans: **True**

4) There is no benefit of globalization on Indian economy.

Ans: **False**

5) New economic policy promoted the liberal economic policy.

Ans: **True**

6) There is no benefit of privatization to Indian economy.

Ans: **False**

7) There is no need of consideration of the business environment factors in business.

Ans: **False**

### **E) Compete the sentence. (Answers)**

1) The term of business environment generally refers to **external environment**.

2) **Business environment** helps the business enterprise for overcoming challenge successfully.

3) Geographical and Ecological factors are included in **natural** Environment.

4) Literacy is the important part of **social** Environment.

5) Stability and peace in the country includes in **political** Environment.

6) Indian political system comprises **three** vital institutions.

7) Limited involvement of government in public sector refer to **privatization**.

8) Integration of economy and society through cross country is called as **globalization**.

**F) Select the correct Option. (Answers)**

1) In how many type environmental factors can be classified?

Ans: **Two.**

2) Which factors of Business Environment regard as controllable?

Ans: **Internal.**

3) Who frames the economic policy of the business?

Ans: **Government.**

4) Which economic system is known as free market economy?

Ans: **Capitalist.**

**G) Correct the underline word and rewrite the following sentence.**

1) External factors of business environment are controllable.

Ans: Internal factors of business are beyond controllable

2) Internal factors of business are beyond controllable.

Ans: External factors of business are beyond controllable.

3) Natural resources are related to political environment.

Ans: Natural resources are related to natural environment.

4) Privatization helps for global village.

Ans: Globalization helps for global village.

**H) Answer in one sentence:**

**(1) Which factors are included in internal environment?**

Ans: Value system, vision, mission and objective management structure, internal power relationship, Human resources, Physical facilities, Marketing resources, etc. are the factors included in internal environment.

**2) What are the powers of legislature?**

**Ans:** Policy making, law making, budget approving, executing control, etc. are the powers of legislature.

**3) Which factor influence the economic condition of the Nation?**

**Ans:** Economic condition of the nation is based on' the gross domestic product, per capital income, availability of capital, growth of foreign trade and strength of capital market.

**4) Who possess the factors of production in socialist economy?**

**Ans:** In socialist economy Government possess the factors of production.

**5) In which environment are the methods and techniques of production included?**

**Ans:** Technological environment consist of the method and technical of production.

**6) When did Indian government launch New Economic Policy?**

**Ans:** Indian government launched New Economic Policy on 24th July, 1991.

**7) What is useful to reduced political interference in industry?**

**Ans:** Privatisation is useful to reduce political interference in Industry.

**8) How is the boundary less world possible?**

**Ans:** Boundary less world is possible through Globalization.

**Q.2. Explain the following terms/concept.**

**1) Business environment.**

**Ans:** (I) Business environment refers to the external environment which includes factor outside the business leading to opportunities or threats of the business. According to Bayard O. Wheeler

(II) "The total of all things external to firm and industries which affect their organization and operations is called as "Business Environment".

**2) Liberalization.**

**Ans:** (I) Liberalization refers to the process of eliminating unnecessary controls

and restrictions for smooth functioning of business.

(II) Liberalization helps in achieving a high growth rate, easy availability of goods at competitive rates, high foreign exchange reserve, strong rupee and good industrial relation, etc.

### **3) Privatization.**

**Ans:** (I) Privatization refers to reduce the involvement of state or public sectors by involving of private 'sector in economic activities.

(II) It implies government sectors to be sold or given to private individuals to run them.

### **4) Globalisation.**

**Ans:** (I) Globalisation means integration of national economy and societies through cross country flows of information, ideas, technologies, good services, capital, finance and people.

(II) It also means “boundary less world”.

### **5) Social environment.**

**Ans:** (I) Modern business is a social system in itself and forms a part of the larger social system represented by society in general.

(II) The class structure of the society affects the business. Such as occupation of the people, their education, income level, social status, attitude towards living, work and social relationship.

### **6) Economic environment.**

**Ans:** Economic environment comprises of economic condition, economic policies and economic system, basic economic philosophy, infrastructure, national income, money supply, saving stages in economic development and trade cycles.

### **7) Political environment.**

**Ans:** (I) Government and its policies affects business firms.

(II) It includes stability and peace in the country, specific attitudes of elected representative. Ideology of the political parties influences the business organization and attitudes of government officials towards business has an impact on business.

(III) It comprises .three vital institutions like Legislature, Government and Judiciary.

### **8) Internal environment.**

**Ans:** Internal environment compromises of policies decided by shareholders, managers, labour unions and employees which can be controlled which helps to make specific, proper understanding in strengthening the business.

### **Q.3. Study the following case/situation and express your opinion.**

(1) The court passes an order to ban polythene bags as the bags are creating many environmental problems which affects the life of people in general.

(2) Society in general is more concerned about quality of life. The government decided to give subsidy to jute industry to promote this business.

### **(I) identify the different dimensions of business environment.**

**Ans:** The different dimensions of business environment are:

- (a) Legal environment (b) Natural environment (c) Social environment
- (d) Political environment (e) Economic environment.

### **(II) Comment on it.**

**Ans:** The different dimensions of business environment are:

#### (a) Legal Environment:

Court passes order to ban polythene bags.

#### (b) Natural Environment:

The Court order will solve environmental problems which affects the life of people in general.

#### (c) Social Environment:

Society is concerned about quality of life and better standard of living.

#### (d) Political Environment:

Government framed a policy to give subsidy to jute industry.

#### (e) Economic Environment:

Subsidy to Jute industry will promote business of Jute industry and this will help in economic development.

2) Just after declaration of Lok Sabha 2014 result, the Bombay Stock Exchange Sensex rose by 1000 points in a day.

**(I) Identify the environmental factor which led to this rise giving reason.**

**Ans:** Rise in stock market index (sensex) is economic environment. But it has done due to political environment (Lok Sabha Election Results)

**(II) Explain any two other dimensions of the environment.**

**Ans:** Two other dimensions of the environment are: (1) Legal environment and (b) Technological environment

3) Anchor company manufacturing light tubes increased expenditure on Scientific Research and Development and discovered a technology that made it possible to produce an energy efficient light tubes that lasts at least twenty times as long as standard tubes. It resulted in growth and profitability of the company.

**(I) Identify the dimension of business environment.**

**Ans:** Technological Environment:

Scientific research for innovation in product increased its production and it resulted in growth and profitability of the company. Internal environment of company led to growth and profitability.

**(II) State importance of business environment.**

**Ans:** Business environment helps in determining opportunities and threats, identify firms strengths and weaknesses, continuous learning, image building, meeting competition and give direction for growth.

4) Make in India is an initiative launched by the government of India. It focuses on job creation and skill development and it is in twenty live sectors of the economy. Under the initiative, brochures on these sectors and web portal were released. The initiative aims at high quality standards and minimizing the impact on environment. It also seeks to attract foreign capital investment in India.

**(I) Identify the dimension of business environment.**

**Ans:** The various dimensions of business environment referred in the above case are:

(a) Political environment (b) Technological environment (c) Economic environment

**(II) Comment on it.**

**Ans:** Make in India is the policy of government as per its ideology. As it (1)



focusing on job creation and skill development in 25 sectors of economy, it convey two values through this initiative. High quality standards and concern for environment. It also aims to attract foreign capital investment in India.

5) Government of India is seriously thinking to allow oil marketing under public sector, by fixing their own price for petroleum products.

**(I) Name the economic reform related to this decision.**

**Ans:** Privatization is the economic reform related to this decision.

**(II) Name other two reforms recommended in new economic policy.**

**Ans:** The other two reforms recommended in new Economic policy are Liberalization and Globalization.

**Q.4. Distinguish between following.**

**1) Social Environment and Economic Environment.**

<b>Ans.</b>	<b>Points</b>	<b>Social Environment</b>	<b>Economic Environment</b>
<b>(1)</b>	<b>Meaning</b>	Social environment includes customs, traditions, values, buying habits, tastes, etc.	Economic environment comprises of economic condition, economic policies and economic system.
<b>(2)</b>	<b>Factors</b>	It includes factors such as social aspects, social trends, social values and traditions.	It includes factors like economic condition, economic policies and economic system.
<b>(3)</b>	<b>Supplement to</b>	It is supplemented by cultural environment like cultural factors, values, beliefs, etc.	It is supplemented by political environment as it is influenced by political decisions or events taken by Government.
<b>(4)</b>	<b>Impact on business</b>	It helps to analyze the changing social trends, taste of different social groups which helps businessmen to know the opportunities and threats.	Changes in economic policies like agricultural policy, monetary policy, etc. lead to changes in economic system and planning which helps businessmen to make changes on timely basis.
<b>(5)</b>	<b>Purpose</b>	It helps to know the needs of customer and satisfy the	It helps in forecasting market situations and

		demand E. g. Today health and fitness trend has created demand for products like gym, organic foods etc.	thereby making suitable business plans E.g. Stock market fluctuations affects management ' practices in a business Enterprise.
(6)	<b>Nature</b>	It is dynamic n nature. Changes in trends, values; growing awareness among different social groups affects the social environment.	It is multi-dimensional in character. Agriculture, infrastructure, national, per capita income, price level etc. affects the economic environment of in a country.

## 2) Political Environment and Legal Environment.

<b>Ans.</b>	<b>Points</b>	<b>Political Environment</b>	<b>Legal Environment.</b>
(1)	<b>Meaning</b>	In a Country, the political system, constitutional provision, party system, events taking place time to time determines the political environment.	In a Country, business can be started, regulated, controlled, expanded within legal framework of a country determines legal environment.
(2)	<b>Factors</b>	Political stability, peace in the country, specific attitudes of elected representative, etc. are the factors which affects political environment.	Various laws are implemented from time to time with amendments in order to control and direct the business.
(3)	<b>Inter relation between environment</b>	Political environment and economic environment are closely connected with each other.	Legal environment and regulatory environment goes together hand-in-hand in modern business environment.
(4)	<b>Impact on business</b>	Ideology of the political parties influences the business organization.	Provides control, direction, expansion to the business organization.
(5)	<b>Purpose</b>	Political stability creates strength, confidence to various interest groups and	Separate laws implemented time to time to safeguard and protect the interest of various groups such as

		investors in long term projects.	business organization, workers, consumers, etc.
(6)	<b>Effect of changes in environment</b>	Political instability effects the business organisation adversely. Business policies are amended due to political issues, events etc. prevailing in country.	Excessive controls, implementation of laws, rules and regulations may create problem in overall development of business organizations.

### 3) Liberalization and Privatisation.

Ans.	points	Liberalization	Privatisation
(1)	<b>Meaning</b>	It refers to the process of eliminating unnecessary controls and restrictions for smooth functioning of business.	It refers to reduce the involvement of state or public sectors by involving of private sector in economic activities.
(2)	<b>Aim</b>	It aims to bring flexibility in business operations by creating environment for growth and expansion.	It aims at promoting efficiency, increase Productivity, profitability.
(3)	<b>Need</b>	To reduce taxation, controls on foreign exchange, attracting foreign investment, etc. thereby to compete with other companies at international level.	To achieve quick and logical business decisions aimed at commercial success of organisation.
(4)	<b>Measures adopted</b>	Reduction in tariffs, reformation of financial system, abolishing industrial licensing system, etc.	Reduction in number of industries reserved for public sector, disinvestment of shares, improvement in performance through MOU.
(5)	<b>Benefits to host company</b>	It results in, high growth rate, easy availability of goods at competitive rates, good industrial relation, etc.	It results in profitability, production of superior quality products and services, self-motivation, etc.
(6)	<b>Benefits to consumers/traders</b>	Optimum use of resources available at global level, easy	Entry of private sector results to competition thereby providing high

		availability of goods at competitive rates.	quality goods and services at lower prices.
(7)	<b>Positive effect</b>	Removing restriction on taxations, abolishing industrial licensing system leads to expansion and growth of new business opportunities.	Improved performance, high quality goods and services in market. Timely prompt decision with more efficiency.
(8)	<b>Adverse effect</b>	It leads to social problems like urbanization and industrialisation, closure of domestic firms due to liberalized imported products, etc.	Growth of monopoly; inequality of income, lack of social responsibility, etc. will hamper the social order of the economy.
(9)	<b>Inter relationship</b>	Liberalisation leads to privatisation and globalization.	Privatisation is a part of the process of globalization.

#### 4) Globalization and Liberalization.

Ans.	points	Globalization	Liberalization
(1)	<b>Meaning</b>	It refers to integration of national economy and societies through cross country flows of information, ideas technologies, goods, services capital, finance and people.	It refers to the process of eliminating unnecessary controls and restrictions for smooth functioning of business.
(2)	<b>Aim</b>	It aims at promoting world trade and economic growth by integrating technologies, goods, services, people, etc.	It aims to bring flexibility in business operations by creating environment for growth and expansion.
(3)	<b>Need</b>	To overcome the problem of declining domestic demand and to ensure free trade.	To reduce taxation, controls on foreign exchange, attracting foreign investment, etc. thereby to compete with other companies at international level.
(4)	<b>Measures adopted</b>	Allowing Foreign Direct investment, approving foreign technology,	Reduction in tariffs, reformation of financial system, abolishing industrial licensing system, etc.

		amendment of patent laws, etc.	
(5)	<b>Benefits to host company</b>	It results in expansion of investment. It promotes foreign trade and brings foreign exchange	It results in, high growth rate, easy availability of goods at competitive rates, good industrial relation, etc.
(6)	<b>Benefits to consumers/traders</b>	Consumers get variety of goods as an option to be purchased. Foreign technology is adopted by traders thereby increasing growth of production.	Optimum use of resources available at global level, easy availability of goods at competitive rates.
(7)	<b>Positive effect</b>	It results in increase in foreign trade, inflow of foreign technology and capital, which increases employment opportunities, business growth, etc.	Removing restriction on taxations, abolishing industrial licensing system leads to expansion and growth of new business opportunities.
(8)	<b>Adverse effect</b>	It leads to exploitation of home market by foreign companies. Capital intensive techniques lead to reduction in job opportunities.	It leads to social problems like urbanization and industrialisation, closure of domestic firms due to liberalised imported products, etc.
(9)	<b>Inter relationship</b>	Globalisation includes liberalisation and privatisation.	Liberalisation leads to privatisation and globalization.

## 5) Privatization and Globalization.

<b>Ans.</b>	<b>points</b>	<b>Privatisation</b>	<b>Globalization</b>
(1)	<b>Meaning</b>	It refers to reduce the involvement of state or public sectors by involving of private sector in economic activities.	It refers to integration of national economy and societies through cross country flows of information, ideas, technologies, goods, services, capital, finance and people.
(2)	<b>Aim</b>	It aims at promoting efficiency, increase Productivity, profitability.	It aims at promoting world trade and economic growth by integrating

			technologies, goods, services, people, etc.
(3)	<b>Need</b>	To achieve quick and logical business decisions aimed at commercial success of organisation.	To overcome the problem of declining domestic demand and to ensure free trade.
(4)	<b>Measures adopted</b>	Reduction in number of industries reserved for public sector, disinvestment of shares, improvement in performance through MOU.	Allowing Foreign Direct investment, approving foreign technology, amendment of patent laws, etc.
(5)	<b>Benefits to host company</b>	It results in profitability, production of superior quality products and services, self-motivation, etc.	It results in expansion of investment. It promotes foreign trade and brings foreign exchange
(6)	<b>Benefits to consumers/traders</b>	Entry of private sector results to competition thereby providing high quality goods and services at lower prices.	Consumers get variety of goods as an option to be purchased; foreign technology is adopted by traders thereby increasing growth of production.
(7)	<b>Positive effect</b>	Improved performance, high quality goods and services in market. Timely prompt decision with more efficiency.	It results in increase in foreign trade, inflow of foreign technology and capital, which increases employment opportunities, business growth, etc.
(8)	<b>Adverse effect</b>	Growth of monopoly; inequality of income, lack of social responsibility, etc. will hamper the social order of the economy.	It leads to exploitation of home market by foreign companies. Capital intensive techniques lead to reduction in job opportunities.
(9)	<b>Inter relationship</b>	Privatisation is a part of the process of globalization.	Globalisation includes liberalisation and privatisation.

**Q.5. Answer in brief.**

**1) State any four features of Social environment.**

**Ans: The four features of social environment are as follows:**

**(I) Customs and Traditions:** This decides the celebration of various festivals like Diwali, Id, Christmas and its effect on business.

**(II) Social Institutions and Groups or Social Aspects:** Literacy level, educational system, cultural heritage standard of living of the various groups of people affect the social environment of business.

**(III) Social Values:** Cultural and social justice, national integration affect the business. Beliefs also help the business to meet the customer needs.

**(IV) Social Trends:** Now a days people have become health conscious and therefore there is a sale of various types of goods like organic food, sugar free products etc.

**2) Describe any two factors of economic environment.**

**Ans:** Economic environment has direct influence on business.

**(I) The Economic System:** Economic activities depend upon the nature of economic system which are:

(a) Capitalist economy: e.g. USA. (b) Socialist economy: e.g. China (c) Mixed economy: e.g. India

**(II) Economic Policies:** The various economic policies of the government has a direct influence on economic environment. For e.g. import and export policy, educational policy, agricultural policy, industrial policy, foreign investment policy, etc.

**(III) Economic Condition:** The stage at which the growth stands, employment rate, rate of interest, etc. All those determine development of the country. **[Note: Students can write any two.]**

**3) State any four features of globalization.**

**Ans: Features of globalization are as follows:**

(I) Purchase and sale of goods and services from one country to another.

(II) Opportunity to start and do business in any part of the world.

(III) Reduction in gap between domestic and international market.

(IV) Possibility of quick and rapid economic development. Enhances the opportunity to exchange new ideas and technology across the nations.

**4) State any four reasons of the need for privatisation.**

**Ans:** There is need for privatisation because of the following reasons:

- (I) To bring more efficiency in the working of business firms.
- (II) To reduce political interference in the working of the firms and companies.
- (III) To improve the quality of products.
- (IV) To bring efficiency in management of the organization.
- (V) To create discipline in capital market.

**Q.6. Justify the following statements.**

**1) External factors of business environment are beyond control.**

**Ans:** (I) Factors which influences the business policy of an organization can be divided into internal and external factors.

(II) Business has no control-over external forces.

(III) These are those factors which provide opportunities or pose threats to the organization.

(IV) Factor such as social customs, values, economic policies, technological development, political ups and down, legislation together constitute political, social, economic, legal and technological diversions of business. Hence, they are not in the hands of business organizations.

(V) Internal factors are controllable and business unit can modify their plans, policies, etc.

(Students can give example of social, political, legal environment to justify further)

**2) Business firm should be aware of the changes in society.**

**Ans:** (I) The success of every business depends on adopting itself to the environment in Which it functions.

(II) Modern business is rightly termed as socio-economic activity.



(III) There is reciprocal relationship between business and society.

(IV) Business is affected by class structure of the society which 'depends upon factors such as occupation its own culture, income, etc.

(V) Every society depends its own culture, customs, tradition, values, ethics, etc. social trends are also changing fast. For e.g. large number of people are eating fast food and go to gyms. So many fast food outlets and gyms are coming up in town and cities.

(VI) Social values and traditions such as celebration of Diwali, Eid, Christmas also affect business.

### **3) Political stability builds up confidence among business people.**

**Ans:** (I) Business firms are affected by the government and its policies.

(II) Political force decide the nature of business, device performance and projects for development.

(III) Political environment includes stability and peace in the country. Political stability builds confidence among different interest groups and investors because long term policies and projects will be started by the government and if the government keep on changing every six months or in a year.

(IV) This will impact long term decisions of development for the country. Because political parties identify forms their decision making. Hence if a government gets its full tenure of 5 years, it can complete its projects and plans and win the confidence of the people.

### **4) Economic environment has direct influence on business.**

**Ans:** (I) Economic environment consists of economic condition, economic policies and economic system along with basic economic philosophy, infrastructure, national income, money supply etc.

(II) Economic condition is based on GDP, per capital income, availability of capital, growth of foreign trade and capital market. .

(III) Where as economic polices framed by the government from time to time changes with changes in the government.

(IV) Every business has to function within the policy framework and responds to changes accordingly.

(V) This relates to Industrial Policy, monetary policy, foreign investment, EXIM policy education policy etc.

(VI) Also the scope of private business and government regulation depends on the economic system such as; capitalist economy, Socialist or mixed economy which impacts business decisions.

#### **5) Social trends provide business opportunities.**

**Ans:** (I) Society and business are inter-dependent.

(II) Class structure such as occupation, education, income level social status, attributes etc. impact business decisions.

(III) Social trends are any type of activity that is practiced in the society as a whole.

(IV) Trends can be for short period or long lasting. As technology progresses the changes in social trends do changes.

(V) Companies use their ability to anticipate the social change as part of their business marketing policy, to grab the business opportunities.

#### **6) An adequate knowledge of rules and regulations is essential for better business performance.**

**Ans:** (I) Any business in a country can be started, regulated and controlled within the legal framework of a country.

(II) Separate set of laws are framed by all countries to control and direct the business affairs.

(III) Knowledge of law, rules and regulations helps the business managers to take prompt decision in making business policies.

(IV) Various laws are implemented for influencing the business, protect and safeguard the business, as well as the consumers.

#### **Q.7. Attempt the following.**

##### **1) Importance of business environment.**

**Ans: (A) Business Environment:** A business is defined as buying and selling activity to generate income. Business consists of several interrelated and interacting elements. Business is an economic and social activity of the society. Society is an integral part of the business and its interest cannot be ignored. .

Business environment consists of economic, social, legal, technological and political situation. Business obtains money, material, machinery and manpower and other resources from environment.

According to **B. O. Wheeler**- Business environment is “the total of all things external to firms and individuals which effect their organisation and operations”.

According to **Oxford English Dictionary**- “Business Environment refers to those aspects of the surroundings of a business enterprise which influence or effect its Operations and determine its effectiveness.”

Basically business environment consists of all internal and external factors that influence the nature and scope of business activity.

### **(B) Importance of Business Environment:**

**(I) Flexible and Dynamic:** Changing environmental factors should be appraised from time to time. So as to keep the business flexible and dynamic. The new opportunities and threats created by the environment can be appraised by the corporate planners to make the most of it. Turbulent market conditions, less brand loyalty, more demanding customers and intense global competition are some of the images of today's business environment. In order to cope with these significant changes, organization must understand and examine the environment and develop suitable course of activity.

**(II) Opportunities and Threats :** Study of business environment enables a business enterprise to visualize future problems that can arise as also future business prospects in advance. Deriving benefit from honorable business opportunities is possible as also it can face the problems boldly. Awareness of environment help an organisation to take advantage of such opportunities instead of losing them to competition. It helps organisation to identify various threats on time and serves as an early signal.

**(III) Competition:** Understanding the business environment helps to obtain qualitative information which in turn is useful in formulating business plans, policies and strategies for the future course of action.

**(IV) Utilization of Resources Optimally:** Optimum use of available resources for the business enterprise is possible by studying the business environment. It enables the enterprise to take full advantage of the policies implemented by the government.

**(V) Strength and Weakness Identification:** With the change of technology and global development it helps to analyze individual strength and weakness of the business understanding the challenges, appropriate decisions are taken on timely basis.

**(VI) Knowledge:** Study of environment is necessary to discover and exploit new opportunities for business expansion broad strategies and long term planning enable the development of a formidable business wait.

**(VII) Image Building:** Environment-study makes it possible for the business to expand and to make it acceptable and agreeable to different social groups. By fulfilling its social obligations towards different groups of society, business can create goodwill and reputation for itself.

**(VIII) Adaptability to Socio-Economic Changes:** A business organization needs to show its keen intentions towards adapting to the socio-economic changes.

## **2) Social Environment.**

**Ans:** Business is a economic and social activity. It has to produce goods according to the requirement of the customers. Satisfying customer is the basic need of business. Therefore, while manufacturing or producing' goods, business has to take into consideration social factors like traditions, customs, education, habits, values, life styles, thinking and earnings of the people of country. Changes in social environment are a must and management has to take into consideration these factors which determines the following aspects.

**(I) Social Aspect:** Literacy level, educational system, tradition and customs, transition of labour, etc. are the important aspect of social environment. It helps to analyze the needs of the people and accordingly the business opportunities are identified.

**(II) Social Trends:** Business practices and procedures must be in tune with the social beliefs. Growing number of working women and changing life style have increased the demand for household appliances in India.

**(III) Social Values:** Cultural and social values. (Social justice, national integration, etc.), family organization and caste structure, social institutions and groups, are taken to consideration while making practices and procedures of business.

**(IV) Traditions:** Customs and traditions. (Diwali, Id, Christmas, etc.) also has an effect on the business. The businessmen have to be more responsible towards the demand of the people accordingly.

## **3) Economic Environment.**

**Ans:** Economic environment comprises of economic condition economic policies and economic system which are the important factors influencing development and trade cycles, national income etc.

**(I) Economic Condition:** It refers to present state of economy of a country or region based on gross domestic product, per capital income, availability of capital, etc.

**(II) Economic Policies:** Government frames economic policies time to time influencing the business activities. In order to control the business in the interest of the politics. e.g.- Industrial policy, monetary policy, foreign investment policy etc.

**(III) Economic System:** It refers to the scope of private business and extent of government regulation on economic activities determines the nature of economic system i.e. capitalist, social or mixed economic.

#### **4) Political Environment.**

**Ans:** Political dimensions or environment includes the country's political system or its ideologies or condition i.e. dictatorship or democracy or communist government or socialistic government.

It indicates the general stability and peace in the country and attitude of the elected government representatives towards business.

Political stability builds up confidence among business people to invest in long term projects for the growth of the economy.

In India we have adopted mixed economy and growth rate often remains moderate. Indian political system comprises three vital institutions like Legislature, Government and Judiciary.

**(I) Legislature:** legislature is a very powerful force that decides the nature of business, programmes, project for the development of the country through policy making, law making, budget approving, etc.

**(II) Government:** The framework of policies are implemented by government which affects the business organization to undertake the responsibilities of the society.

**(III) Judiciary:** It determines the work of executives to carry out the policies in a systematic manner, in order to settle relationship between citizens and the government.

#### **5) Impact of new economic policy on business and industry.**

**Ans: (A) Introduction:** On July, 1991, the Government of India announced its New Industrial Policy. It brought about radical changes in the Economic Policy. The three main pillars of Economic reforms are L- P- G- (Liberalisation, Privatisation and Globalisation). The main purpose was to modernise India's Industrial system, implement new techniques, remove unproductive control, encourage

private investment and integrate our economy with the global economy.

**(B) Impact of changes in Government Policy on Business and Industry:**

**(I) Budgetary Support:** The Central Government's budgetary support for financing the public sector outlays has declined over the years. In order to survive and grow, PSUs have to be more efficient and self-sufficient so as to compete with private sector.

**(II) Increase in Competition:** Competition for Indian firms has increased due to the changes in the rules of industrial licensing and entry of foreign firms. for e.g. Service Industries like Insurance, Banking, Telecommunications, Hotel and Airlines, etc. which were earlier in the public sector are now facing , competition from private players such as Bajaj Alliance, Max Life, Star Life, Insurance, low cost airlines like Indigo, etc.

**(III) New Trade Policy:** The new trade policy has helped the Indian Firms to enter into foreign markets and earn the foreign exchange required for importing raw materials, spare parts and components they needed t for keeping their production lines going.

**(IV) Demanding Customers :** Today's market is customer oriented as customers are well informed and there is growing awareness among them about the malpractices adopted by traders, consumer rights, consumer education and so on. Moreover, competition in the market gives the customer wider choice in purchasing good quality product and makes customer more demanding.

**(V) Need for Human Resource Development:** New technologies require expert knowledge and skill in various fields. Moreover, newer markets made it compulsory for companies to acquire trained personnel with high degree of competence and commitment. Hence, there is a need for well trained staff and thereby develop human resources.

**(VI) Change in Technological Environment:** Increased competition and advancements in the field Of technology have forced the business units to develop new ways to survive and grow in the market and keep pace with latest technological developments.

**(VII) Change in the Concept of Marketing:** Earlier business organisations were production oriented but due to fast changing business world it has now become market oriented. This changed to societal concept where needs of society are kept in mind by the producers. The latest is relationship marketing whereby it is not only producing goods for consumers but maintaining long term relationship with them so as to sustain them.

## Q.8. Answer the following.

### 1) What is business environment? Explain the importance of business environment.

**Ans: (A) Business Environment:** A business is defined as buying and selling activity to generate income. Business consists of several interrelated and interacting elements. Business is an economic and social activity of the society. Society is an integral part of the business and its interest cannot be ignored. . Business environment consists of economic, social, legal, technological and political situation. Business obtains money, material, machinery and manpower and other resources from environment.

According to **B. O. Wheeler-** Business environment is “the total of all things external to firms and individuals which effect their organisation and operations”.

According to **Oxford English Dictionary-** “Business Environment refers to those aspects of the surroundings of a business enterprise which influence or effect its Operations and determine its effectiveness.”

Basically business environment consists of all internal and external factors that influence the nature and scope of business activity.

### **(B) Importance of Business Environment:**

**(I) Flexible and Dynamic:** Changing environmental factors should be appraised from time to time. So as to keep the business flexible and dynamic. The new opportunities and threats created by the environment can be appraised by the corporate planners to make the most of it. Turbulent market conditions, less brand loyalty, more demanding customers and intense global competition are some of the images of today's business environment. In order to cope with these significant changes, organization must understand and examine the environment and develop suitable course of activity.

**(II) Opportunities and Threats :** Study of business environment enables a business enterprise to visualize future problems that can arise as also future business prospects in advance. Deriving benefit from honorable business opportunities is possible as also it can face the problems boldly. Awareness of environment help an organisation to take advantage of such opportunities instead of losing them to competition. It helps organisation to identify various threats on time and serves as an early signal.

**(III) Competition:** Understanding the business environment helps to obtain qualitative information which in turn is useful in formulating business plans, policies and strategies for the future course of action.

**(IV) Utilization of Resources Optimally:** Optimum use of available resources for



the business enterprise is possible by studying the business environment. It enables the enterprise to take full advantage of the policies implemented by the government.

**(V) Strength and Weakness Identification:** With the change of technology and global development it helps to analyze individual strength and weakness of the business understanding the challenges, appropriate decisions are taken on timely basis.

**(VI) Knowledge:** Study of environment is necessary to discover and exploit new opportunities for business expansion broad strategies and long term planning enable the development of a formidable business wait.

**(VII) Image Building:** Environment-study makes it possible for the business to expand and to make it acceptable and agreeable to different social groups. By fulfilling its social obligations towards different groups of society, business can create goodwill and reputation for itself.

**(VIII) Adaptability to Socio-Economic Changes:** A business organization needs to show its keen intentions towards adapting to the socio-economic changes.

## **2) Explain the new economic policy in details.**

**Ans:** new economic policy was introduced by the Government on 24th July, 1991, on the failure of the earlier Industrial policy prevailing in India.

The new policy was known as LPG i.e. Liberalisation, privatisation and Globalisation. This was the brain child of the Prime Minister P. V. Narasimha Rao and the finance minister Dr. Manmohan Singh.

### **(I) Liberalisation:**

It means to liberate the industry, trade and commerce from the unnecessary restrictions and regulations that curtailed the freedom of enterprise.

Liberalisation has helped the Indian economy to open up and allowed the entry e Interaction with the world has happened after the 1991 policy.

### **Liberalisation policy has brought about the following measures:**

- (a) Encouraging Direct Foreign Investment.
- (b) Wide Choice of products and services enjoyed by the customers.
- (c) Reduction in control of Foreign Exchange.
- (d) Cost of products, price and quality in tune to the global markets.



- (e) Changing the approach towards industrial sickness.
  - (f) Production of quality products to meet the competitive markets.
  - (g) Freedom to choose the scale of business.
  - (h) Reduction in tax rates, tax holidays etc.
  - (i) Encouraging new technology, technological upgradation and foreign collaboration.
  - (j) Import of machinery, goods and other services on easy terms.
  - (k) Abolishing licensing system for most of the industries.
  - (l) Opening telecommunication sector.
- Liberalisation has thus made the country achieve high growth rate, made the rupee stronger and helped good industrial relations.

## **(II) Privatisation:**

Privatisation is a process of transferring ownership of business, enterprise agency or public service from the public sector (government) to the private sector.

### **Features of Privatisation are:**

- (a) To provide variety of business units to consumers.
- (b) To ensure less political interference in running the business.
- (c) To bring about more accountability.
- (d) To reduce labour problem.
- (e) To bring about a market oriented approach.
- (f) To make Competition more intense.
- (g) To bring about more efficiency. .
- (h) To maintain capital market discipline.

The government of the country has followed a disinvestment policy.

### **Disinvestment means:**

When there is a sale of a public undertaking in full or part of private sector

without transferring the ownership to private sector.

The management and control is transferred to public undertaking e.g. Maruti Udyog Ltd., SAIL, ONGC, etc.

Improvement in the performance of the industries through Memorandum of Understanding (MOU). Privatisation helps the private sector to be efficient result oriented, productive and active. Capitalist countries like America and Japan have followed privatisation.

### **(III) Globalisation:**

When the operation and organization of business activities are on a global scale, it is called as Globalisation. It is integration of business activities by considering the entire world is one market. . In short globalisation means a boundary less world, where there would be a free flow of goods, services information, capital and people across nations. Globalisation has effect on socio-economic and political sphere of life.

### **Features of Globalisation:**

- (a) Buying and selling goods from/to any country is possible due to globalisation.
- (b) Establishing manufacturing, production and distribution facilities in any part of the world.
- (c) Freedom to set up and operate business in any part of the world.
- (d) Render faster economic development of any country.
- (e) Exchange of new ideas and technology across nations.
- (f) Narrowing differences between domestic and international market.
- (g) Direct foreign private participation in the industrial development of any country. Thus it could be seen that globalisation is an evolutionary concept. Through the policy of 1991 the government moved the country to this globalisation pattern.