



LEARNING OBJECTIVES

- Meaning and Concept of Business Environment
- Classification of Business Environment
- Features of Business Environment
- Significance of Business Environment
- Components of Business Environment
- Dimensions of General Environment
- Demonetisation
- Economic Policy 1991: Features, Elements and its Impact on Business and Industry
- Managerial Response

INTRODUCTION

The environment in which a business organisation operates is known as business environment. It may be internal as well as external. Internal environment consists of owners, management, employees, resources (assets), goals, objectives, infrastructure, rules, regulations, methods, techniques, organisational structure, etc. External environment consists of operating environment and general environment.

Operating environment consists of suppliers, customers, public, banks, financial institutions, intermediaries, etc. **General environment** consists of Economic, Political, Legal, Social and Technological factors.

Factors affecting internal environment are controllable whereas factors affecting external environment are uncontrollable.

Business Environment provides opportunities and poses threats in the course of normal routine of business. It helps a company in formulation of strategy & know the weakness, SWROT analysis (strengths, weaknesses, opportunities & threats). This would be better understood by the situation which the soft drink giants, Pepsi and Coca-Cola had to face.

These two MNC were allowed to operate in India after India implemented Economic Policy in June, 1991 to meet foreign exchange crisis. This economic policy brought Opportunity for these two giants to sell their products in India. In the beginning of the year 2006, Centre for Science and Environment (C.S.E.) claimed to have found pesticides in their drinks more than the permissible limits. Later, the Union Health Ministry's expert committee observed that the drinks were safe. Despite Health Ministry's clean chit to colas, several states continue to ban or restrict Coke and Pepsi which adversely affected the sales of both companies. This situation posed threat before these companies. These companies had to convince the general public by giving press releases and conducted many publicity campaigns to claim that their products were perfectly safe.

MEANING AND CONCEPT OF BUSINESS ENVIRONMENT

CONCEPT OF BUSINESS ENVIRONMENT

Every business enterprise operates in association with the various groups of society which are related to it internally and externally in the form of employees, customers, suppliers, government agencies, bank and financial institutions and so on. The success of every business enterprise lies in the fact that how effectively a business enterprise deals to achieve its goals. All such groups of society constitute Business Environment.

MEANING OF BUSINESS ENVIRONMENT

“The term ‘*Business Environment*’ means the sum of external forces and the institutions which operate outside the control of the business organisations **in addition to the internal forces** which the business organisations have to face to achieve their objectives.”

External Forces. Economic, Political, Social, Legal, Technological.

Institutions. Suppliers, Customers, Banks, Financial Institutions, Intermediaries, General Public

DEFINITIONS OF BUSINESS ENVIRONMENT

“*The environment of business consists of all those external things to which it is exposed and by which it may be influenced, directly or indirectly.*” ...Reinecke & Schoell

“*In environment, there are external factors, which constantly bring opportunities and threats to the business firm.*” ...William Glueck and Jauck

“*There are lots of pressures and controls which are mostly outside the control of individual firm and its managers.*” ...Richman and Copen

OPPORTUNITIES VS THREATS

Basis	Opportunity	Threat
1. Form	Opportunities come in the form of opening of new areas/products demanded by customer, availability of new technologies, etc.	Threats are in the form of economic conditions, government regulations, customs, availability of supply of labour and other factors, etc.
2. Example	When Pepsi and Coca Cola got the permission to set up their businesses in India, it was an opportunity for them.	When Centre of Science and Environment (CSE) claimed to have found pesticides in the soft drinks more than the desired limits, it became a threat for them.

CLASSIFICATION OF BUSINESS ENVIRONMENT

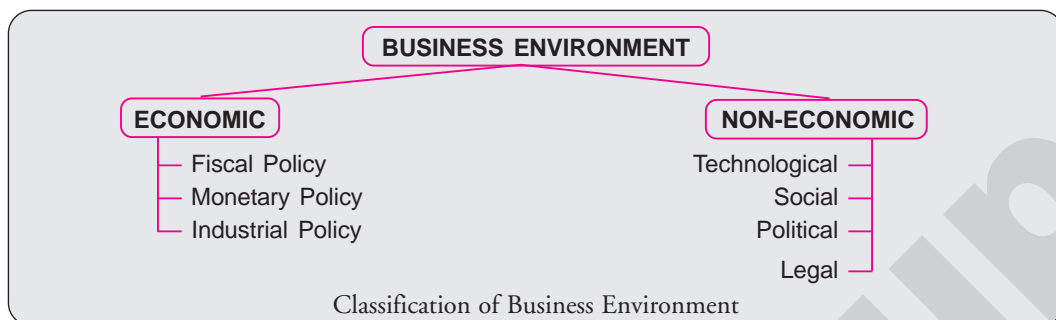
Business environment can be classified in two major categories:

ECONOMIC ENVIRONMENT

It consists of all such factors which are purely monetary in nature, i.e., the Fiscal Policy, Monetary Policy, Industrial Policy, etc.

NON-ECONOMIC ENVIRONMENT

It consists of non-monetary or social factors, e.g., Social, Technical, Political and Legal factors.



SECRET FOR THE SUCCESS OF BUSINESS FIRMS

Successful business firms are those who are ready to adapt to their environment. They need to understand and cope up with all those factors and forces which affect their success internally as well as externally. To remain in business and be successful, constant understanding of the business environment is a rule rather than an exception. The organisations which fail to adapt to their environment are unlikely to survive in the long run, and have to disappear in the long run.

ENVIRONMENTAL SCANNING

Environmental scanning means a process by which business organisations monitor their relevant environment to identify opportunities and threats affecting their businesses. By monitoring the environment through environmental scanning, an organisation can consider the impact of different events, trends, issues and expectations of the customers on its goals.

FEATURES OF BUSINESS ENVIRONMENT

1. **Totality of External Forces.** Business environment is the sum of all external forces which are likely to influence the performance of a business enterprise although they happen to exist outside its boundaries and are beyond the control of the business organisations.

2. **Specific and General Forces.** Specific forces (Operating Environment), such as investors, customers, competitors and suppliers affect individual enterprises directly and General Forces (External Environment) such as economic, social, political, legal, and technological conditions have an impact on all business enterprises indirectly.

3. **Inter-relatedness.** Different elements of business environment are closely interrelated. Example, increased life expectancy of people and increased awareness for health consciousness have increased the demand for many health products and services like diet coke, fat-free cooking oil and health resorts.

4. **Dynamic Nature.** Business environment is dynamic in the sense that it keeps changing whether in terms of technological improvement, shifts in consumer preferences or entry of new competition in the market.

5. **Uncertainty.** Business environment is largely uncertain as it is very difficult to predict future happenings, especially when environment changes are taking place too frequently as in the case of information technology or fashion industry.

6. **Complexity.** It is very difficult to understand the impact of business environment on the companies. Although it is easy to scan the environment but it is very difficult to know how these changes in the environment will influence business decisions. Some changes may leave minor impact whereas others may have major impact.

Example: Reduction in tax rates (now Goods and Services Tax, earlier Service Tax) for AC and non-AC restaurants may encourage general public to visit restaurants frequently, whereas higher tax for five star hotels may discourage middle and upper middle class to visit more frequently. Similarly, increase in tax rate for small cars may discourage middle class people to buy cars, whereas rich people will benefit after reduction of tax rates on luxury cars due to abolition of excise duty.

7. **Relativity (not Static or Contingent).** The word 'relativity' is derived from the word 'related' and in the context of business environment, it simply means something related to local conditions. Business environment is related to the environment which happens to be different from place to place, time to time, region to region, country to country and even person to person. Nothing is static in the business environment. Changes in the environment create contingent situations which compels business enterprises to change their strategies to deal with the changes in the environment to achieve desired goals.

Example: Closure of unauthorised slaughter houses in UP created fall in the demand of beef and the people had to manage with other alternatives. People lost employment and they migrated to cities. Mc Donald's and many other eateries had to change the menu as per the local conditions of India. If sarees can easily be sold in India, we cannot expect to have same passion or culture in European countries.

SIGNIFICANCE OF BUSINESS ENVIRONMENT

The importance of business environment and its understanding by managers can be appreciated if we consider the following facts:

1. **It enables to identify Opportunities & getting First Mover Advantage.** If the business firms understand the business environment, they can capture the opportunities before the competitors come in the race.

Example 1. Online shopping trend in India is growing rapidly and was expected to reach 300 million people in three years, which was estimated 100 million in 2016 from 35 million in 2014 and 8 million in 2012. This sharp rise in online shoppers has become opportunity for all the online e-commerce platforms and threat for brick-and-mortar (offline) retailers.

Example 2. Airtel identified the need of fast Internet and took the first-mover advantage by providing 4G services to its users and this was soon followed by Vodafone and Idea.

2. **It helps to identify Threats & Early Warning Signal.** Understanding business environment helps us know about the threats what are likely to happen in the future

and prepare the business firms to compete. If it is known to Indian manufacturer that a multinational is entering in the market with their substitutes, it should be taken as a warning signal.

Example 1. E-tailers who are selling the products online at heavy discounts have become a threat for small as well as big chain of stores who sell products on the shelves. Thus, the environment has warned the offline retailers to prepare their strategy on how to face the e-tailers.

Example 2. Many FMCG (fast-moving consumer goods) companies have found 'Patanjali products' as a warning signal, which has forced them to develop similar products.

Example 3. Many Chinese products including electronic products have become a threat for Indian manufacturers.

3. It helps in Tapping Useful Resources. Business enterprises have to supply the goods and services according to the demand in the market. They collect the resources (inputs) like finance, machines, raw materials, power, labour and water, etc., from the environment and convert these resources into finished products (output) and services as per the requirement of the market. Thus, business organisations depend on external environment for tapping various resources and to sell its product and services.

Example. With the demand of latest technology, manufacturers will tap the resources from the environment to manufacture LED TVs and Smart Android TVs rather than collecting resources for Color or Black & White TVs.

4. It helps in Coping with Rapid Changes. Today's changes are taking place in the environment at a very fast pace and these changes are leaving a great impact on the functioning of the business enterprises. It is essential for every business organisation to scan the changes in the environment and take these changes as threats or opportunities and prepare its strategies accordingly.

Example. To bring quality education in teaching at par with private schools, governments are bringing technology in the classrooms. Young generation prefers to buy goods online; and now offline retailers are also selling their products online to survive. Public sector banks have added digital services over the years to compete with private sector banks. To compete at the global level, the central government believes in digitisation of all services.

5. It helps in Planning and Policy Formulation. Since environment is a source of both opportunities and threats, its understanding and analysis are the basis for the future course of action.

Example. E-tailers have posed a lot of threat to brick-and-mortar retailers (offline retailers) and wish the government should prepare some rules and regulations for their survival and moreover, they are found flouting the norms on the utilisation of FDI.

6. It helps in Improving Performance. Many studies reveal that the future of an enterprise is closely bound with what is happening in the environment. The enterprises that continuously monitor their environment and adopt suitable business practices have improved their present performance and also have been able to survive in the market.

Example. Apple, Google and Samsung are some of the companies, which have always been improving their products and remained successful in maintaining their market share due to proper understanding of the environment and taking suitable innovations in their products.

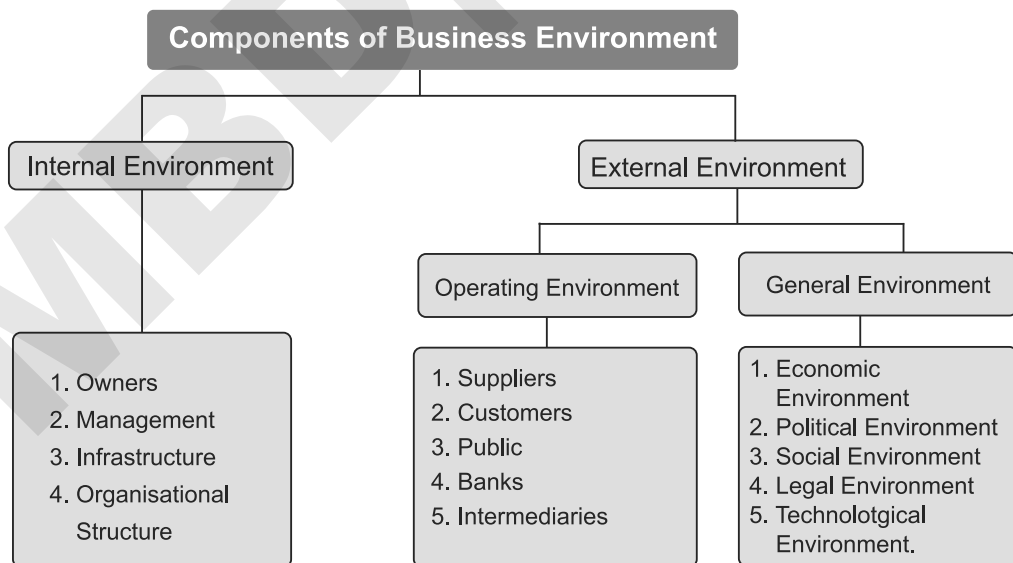
COMPONENTS OF BUSINESS ENVIRONMENT

Components of Business Environment are classified into two categories:

(A) **Internal Environment and its Factors.** Factors relating to internal environment are those which affect the business organisations internally and are within the control of the business organisations which can be adjusted, modified, altered, changed, etc., as per the prevailing situations and requirements of a business from time to time. Examples of internal environment are:

- | | |
|---------------------------------------|-------------------------------|
| 1. Owners | 2. Management |
| 3. Employees | 4. Infrastructure |
| 5. Organisational structure | 6. Production capacity |
| 7. Policies | 8. Procedures |
| 9. Strategies | 10. Programs |
| 11. Rules | 12. Regulations |
| 13. Methods of production | 14. Human Resource Management |
| 15. Relations within the organisation | |

It must be noted that though the internal factors influence the decision-making of the business enterprises and as such these factors are in the control of the management, they cannot be wholly included in the preview of business environment.



(B) **External Environment and its Factors.** External factors exist outside and are not in the control of the business organisations. These are broadly classified into two categories, viz Operating Environment with which the business organisations have very close relationships and affect business to business differently and the General Environment which affects the entire business community.

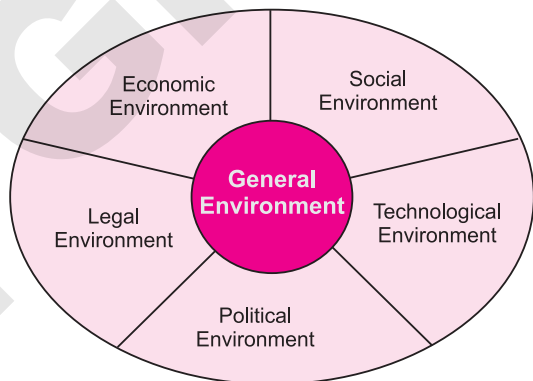
DIMENSIONS OF OPERATING AND GENERAL ENVIRONMENT

A. Operating Environment	B. General Environment
(a) Suppliers (b) Customers (c) Banks (d) Financial Institutions (e) Intermediaries (f) General Public	(a) Economic Environment (b) Political Environment (c) Social Environment (d) Legal Environment (e) Political Environment

Note: Our scope of study is restricted to the General Environment

DIMENSIONS OF GENERAL ENVIRONMENT

The success of every business is dependent not merely on the factors relating to the internal environment but also on many other external forces or factors relating to the external environment and such factors leave a considerable impact on the functioning of the business organisations. The thorough understanding of such factors helps the business organisations to have a competitive edge and help them survive in the industry. These external factors also known as dimensions of business environment explain the general environment and are classified into five broad categories:



ECONOMIC ENVIRONMENT

Economic environment has a very strong influence over the policies of the organisation. It represents the type of economy and its conditions. Therefore, any change in it has far reaching effects on the productivity and other aspects of the organisation.

The condition of the economic environment of India on the eve of independence was as follows:

- There was dominance of agriculture and rural sector which is changing & moving towards service sector.
- Almost 70 % of the working population was employed in agriculture.
- About 85 % of the population was living in villages. It is now 75% approximate.

- Production was carried out using irrational, low productivity technology and now there is a use of sophisticated technology.
- Communicable diseases were widespread, mortality rates were high and there was no good public health system.

Components of Economic Environment	Examples of Economic Environment
<ul style="list-style-type: none"> ● Role of private and public sector. ● Rates of growth of GNP and Per-capita income, inflation rate. ● Consumer Income, Personal Disposable Income ● Rates of saving and investment. ● Volume of exports and imports. ● Balance of payments. ● Stock exchange indices. ● Expansion of transportation and communication facilities. ● Money supply in the economy. ● International debt. 	<ul style="list-style-type: none"> ● Attractive schemes for depositing and lending money. ● Offering loans at very nominal rates of interest and with minimum formalities by banks. ● Economic and fiscal policy. ● Reduction in tax rates. ● Investment by NRIs and foreign investors or Foreign Direct Investment (F.D.I.). ● Permission to private sector for entering into financial sector.

SOCIAL ENVIRONMENT

Social environment is dynamic in nature and the management can't ignore these changes if it wants to earn higher profits. **For Example.** The health and fitness trend has become popular among large number of urban dwellers. This has created a demand for products like organic food, diet soft drinks, gyms, bottled water, etc. This trend has, however, harmed business in other industries like dairy processing, tobacco and liquor.

Components of Social Environment	Examples of Social Environment
<ul style="list-style-type: none"> ● Quality of life. ● Importance of women in workplace. ● Attitude of customers towards innovation and lifestyle. ● Consumption habits of the consumers. ● Education and literacy rates. ● Tradition and customs. ● Social attitudes, rituals, culture, family structure, values, awareness of rights, work ethics. 	<ul style="list-style-type: none"> ● Demand for reservation in jobs for minority and women. ● Demand for equal status for women in employment with men. ● Demand for automatic machines and luxury items in middle class families. ● The social movements to improve the education level of girl child. ● Popularity in health and fitness trends. ● Westernisation of Indian culture with the opening of Malls.

POLITICAL ENVIRONMENT

Its elements are related to government affairs, e.g., type of government in existence, its attitude towards various industries, etc. The political environment has immediate and great impact on the business transactions as different political parties have different perceptions for labour & firms.

Example 1. After the announcement of Economic Policy, 1991 foreign companies found it difficult to invest Foreign Direct Investment (F.D.I.) in India due to complex procedures and bureaucratic set-up.

Example 2. Due to Maggie row over the use of lead than the permissible limits in the ‘Maggie Noodles’, many foreign companies hesitated to invest in India.

Example 3. Visit to different countries by honourable PM Narendra Modi has created vast opportunities for foreign direct investment and employment.

Components of Political Environment	Examples of Political Environment
<ul style="list-style-type: none"> ● Present political system. ● Constitution of the country. ● State of political leaders. ● Government intervention in business. ● Foreign policy of the government. ● Philosophy and ideology of political parties. ● Government’s attitude towards MNCs and international policies. 	<ul style="list-style-type: none"> ● Boost to IT industry in Hyderabad, as a result of which it is known as Cyberabad instead of Hyderabad. ● Easy entry to global giants to set up business in India. ● Many MNCs have established their operations after the implementation of Economic Policy, 1991.

LEGAL ENVIRONMENT

Before making policies, management must know the rules, regulations and framework within which it has to operate. Legal environment prescribes rules/laws passed by the parliament/State Assembly’s court judgments, decisions rendered by various commissions and agencies.

Components of Legal Environment	Examples of Legal Environment
<ul style="list-style-type: none"> ● Various laws and legislative Acts. ● Policies relating to licensing and approvals. ● Policies relating to foreign trade. ● Essential warning to carry on the product. ● Laws to keep a check on advertisements. 	<ul style="list-style-type: none"> ● Deregulation of capital market-easy for businessmen to collect capital from the primary market. ● Removal of control from the foreign exchange and liberalisation in investment-encouraging foreign investors and NRIs to invest in Indian capital market. ● Prohibition of advertisements for alcoholic products. ● Compulsion to give statutory warnings in case of tobacco products. ● Delicensing policy of industries.

Note: (Political versus Legal) When any issue is subject to debate in parliament, it is political, such issues are raised in the form of bill/draft, it becomes part of legal environment after it gets president’s approval.

TECHNOLOGICAL ENVIRONMENT

It includes all innovations, discoveries and machineries which management uses to improve the quality of their product. In order to survive in the market, a business organisation must monitor the technological changes taking place in the business environment.

Example. Increasing use of robots in factories has increased the total production capacity. Production of LCD/LED TVs has killed the market of Black & White and Colour TVs, vacuum tubes have given way to transistors, typewriters to computers, steam locomotive engine to electric engine, etc.

Components of Technological Environment	Examples of Technological Environment
<ul style="list-style-type: none">● Advancement of science and technology.● Innovations.● Economic and efficient methods of production.● Improved machines and equipments.● Development of IT sector.	<ul style="list-style-type: none">● Elimination the role of middlement due to e-commerce platforms.● Replacement of traditional watches with digital watches.● Replacement of CRT TVs with LCD TVs.● Replacement of vacuum tubes with transistors.● Replacement of steam locomotive with electric engine.● Replacement of typewriter with computer.● Smartphones care capturing the market.

DEMONETISATION INTRODUCTION

Earlier governments world over used to follow gold standard as a monetary system. Under this system, currency or paper money was directly linked to gold deposits and reserves with the governments. Starting from Britain in 1931 till 1971, all the countries have abandoned this monetary policy. Today, fiat money is used by all the countries as a legal tender which is not backed by any commodity. In this monetary system, the government monetises an object (paper or a commodity) into a currency by declaring it as a legal tender. The object which is so declared officially as a currency is then used as a medium of exchange in the country.

Any government can monetise an object by approving it as a currency or a legal tender. Similarly, it can also demonetise the object by withdrawing the approval as a legal tender. Governments demonetise their currencies when they find that the object is not suitable to be used as a currency as it has lost its value. Governments may also demonetise to achieve other monetary policy objectives.

In the recent times, on 8 November 2016, the central government, on the recommendation of the Central Board of the Reserve Bank, declared the then existing series of the banknotes of the denominational value of ₹ 500 and ₹1,000 to cease to be legal tender and remonetised the currency with the notes of denomination of ₹ 2,000 and ₹ 200. The purpose was to fight black money, end corruption and promote cashless economy.

MEANING OF DEMONETISATION

It is the process through which the central government withdraws the approval of legal tender granted to existing currency notes of certain denominated value from the circulation.

Central Bank strips (demonetises) existing currency notes of certain denominated value from the circulation. After demonetisation, the currency cannot be used as money and ceases to perform the functions of a medium of exchange, storage, deferred payment or any other function of money.

FEATURES OF DEMONETISATION

- (a) **A monetary process:** Demonetisation is a process of withdrawing the currency from circulation. A government implements this process through its central bank, and it may take days to weeks depending upon the size of currency demonetised and the size of its country and population.
- (b) **Long-term effects:** A country may take long time to overcome from the shadow of the after-effects of this decision. The real benefits or disadvantages of this policy can only be assessed over a longer period of time.
- (c) **Frequency to use:** The policy to demonetise a currency cannot be used very frequently. It is rarely used and may affect the population, its trade and day-to-day activities.
- (d) **Burden on revenue:** Demonetisation adversely affects the government exchequer by increasing its expenditure in terms of destroying the old currency, recruiting additional manpower for implementation of the policy and bringing the additional or new currency in circulation to reduce the difficulties of the people.
- (e) **A bond of mutual trust:** The policy causes inconvenience to the people. Therefore, successful implementation of such a policy depends upon the mutual trust and confidence between the government and its people. The government needs to take its people into confidence and make them believe its necessity.
- (f) **Monetary transmission and reduction in bank rates:** During demonetisation, people deposit their physical currency in banks and financial institutions. This increases supply of funds than demand and hence lending rates decrease.

Enrichment Learning on Demonetisation

History of demonetisation: It took place the first time on January 12, 1946, when the Reserve Bank of India (RBI) demonetised the then under-circulation ₹ 1,000 and ₹ 10,000 currency notes. Higher denomination banknotes of ₹ 1,000, ₹ 5,000 and ₹ 10,000 were introduced eight years later in the year 1954. The second time, Morarji Desai Government demonetised such currency on January 16, 1978, and the third time, Narendra Modi government demonetised ₹ 500 and ₹ 1,000 currency notes on November 08, 2016.

Purpose of demonetisation: A government demonetises its currency to curb fake currency, black money and unaccounted money from the circulation.

Impact of demonetisation on Indian economy, commerce and industry

(a) **Bringing black money into economy:** Black money refers to undisclosed income from the taxation authorities, and it works as a parallel economy with the organised, structured economy. Black money was unearthed from huge savings made during the demonetisation period in the form of different commodities and into savings accounts opened under Pradhan Mantri Jan Dhan Yojna, opened by poor people.

As per a report published by the Income Tax Department, an undisclosed income of about ₹ 9334 crores was reported between November 16 and February 17. Nearly ₹ 5,000 crores were deposited into Jan Dhan Yojna accounts.

(b) **Strengthened tax mechanism:** Demonetisation helped to add more people into tax net. The Income Tax Department got the information about such people when they deposited their undisclosed income into bank accounts. As per a report released by the Income Tax Department, 1.56 lakhs people are expected to be added to the income tax net under the operation black money.

(c) **Boost to digital payments:** The government initiative created inseparable link between demonetisation and digitisation. It encouraged the people to embrace digital payment methods. People are making maximum use of digital payments like payments through mobile wallets, credit cards, debit cards, net banking, withdrawal and payments through ATMs, UPI apps, Aadhaar linked BHIM App, payments through finger swipe machines and more. The move has inaugurated the march towards cashless society.

(d) **Curb on parallel economy⁽¹⁾:** To make demonetization move effectively, the government took other initiatives to create a compliant society. The main initiatives are to curb on *Benami* properties, banning cash transactions above ₹ 3 lakhs, Aadhaar–PAN linkage, mandatory PAN number requirements for cash deposits above ₹ 50,000 etc. These measures have reduced the circumference of parallel economy.

(1) **Parallel economy:** The flow of black money⁽²⁾ in our system which is beyond the purview of the RBI and government is called a parallel economy.

(2) **Black money:** Contrary to white money, it is an unaccounted/unrecorded/untaxed money earned through unknown sources and sometimes with illegal sources.

(e) **Reduction of informal economy:** Banks and e-wallets have played significant role to make the general public aware about the use of digital payments. Now, even the villages in remote areas are becoming cashless.

Examples:

(1) Akodara village in Gujarat has already become a cashless village in 2015 before the demonetisation move. The villagers remained unaffected by the demonetisation move. They use e-banking modes for every transaction and hardly use cash. The village was adopted by ICICI Bank Foundation.

(2) In February 2016, former President Mr Pranab Mukerjee declared Kerala as the first Indian state to link its villages with broadband connectivity under the National Optical Fibre Network Programme.

(3) Other most digitised states are Telangana, Andhra Pradesh, Gujarat and Karnataka.

(f) **Low growth of GDP:** Demonetisation has produced some unavoidable negative effects in the short term and long term. National income remained low for some quarters. Low-earning and daily wage workers in the unorganised sector suffered the most. Post demonetisation, Indian economic growth slowed down from 7% (Q3: Oct 16 to Dec 16) to 6.1% (Q4: Jan 17 to March 17).

Badly affected sectors: These sectors were manufacturing (1.2% vs 10.7% a year ago), mining & quarrying (-0.7%) and construction (2% vs 3.1% a year ago). These are the cash-intensive sectors and were badly affected due to cash squeeze. Later, the sectors were again hit due to implementation of the Goods and Services Tax Act.

Sectors registered strong growth: These sectors were financial services (+6.4%), trade, hotels, transport and communication (+11%) and defence services (+9.5%).

Conclusion: Demonetisation has created pleasant and surprising good effects on the economy. Ultimately, it is a good move towards eradicating black money, creating a tax-compliant society and a cashless and transparent economy.

ECONOMIC POLICY, 1991

MEANING OF ECONOMIC POLICY

Economic policy refers to the actions that governments take to influence the economy of a city, state or nation. Such actions are taken in the form of setting tax rates and interest rates, balancing government expenditures / budget and many other interventions by the government.

ELEMENTS OF ECONOMIC POLICY

The composition or essence of Economic Policy, 1991 can be summed up with the help of three terms Liberalisation, Privatisation and Globalisation also sometimes known as LPG. LPG is the mantra of the present state of the economic reforms in India.

This policy sought to liberate industries from the shackles of the licensing system by **liberalisation**, reduce the role of public sector by **privatisation** by allowing private business entrepreneurs in the government sector and to encourage the foreign multinationals to set up their businesses in India with the process of **globalisation**.

(A) LIBERALISATION

Liberalisation means making rules and regulations for running economic units (industrial units) liberally. The rules and regulations can be made liberal either by completely removing or reducing government control, end of license, quota and restrictions on the business enterprises. The purpose is to give more freedom to the entrepreneurs to create a 'level playing field'.

Features of Liberalisation

1. Abolition of License. License requirement in most of the industries was abolished. The need for license was limited to some of the industries like hazardous chemicals, products for defence purposes, etc.

2. Removal of Restrictions. Permitted no restriction on expansion or contraction of the business activities.

3. Free Movement of Goods and Services. Restrictions on the movement of goods and services were removed.

4. Freedom of Fixation of Prices. Allowed freedom in fixing the prices of goods and services.

5. Relaxation in Taxation. Reduced tax rates for enabling the business units to enhance their business operations.

6. Lifting Controls. Lifted unnecessary controls on the economy.

7. EXIM Procedures Simplified. Government simplified the procedures relating to Exports and Imports.

8. Foreign Direct Investment. Through simplification in the exports and import procedures, government tried to attract F.D.I. from foreign multinationals.

(B) PRIVATISATION

Privatisation refers to assigning greater role to private sector and reducing the role of the public sector. It can be achieved in two ways. One way is to encourage the entry of private units in the areas which were earlier reserved for the public sector. The second way is to transfer the public sector (government) units to the private sector.

It was the reversal of development strategy pursued by the Indian planners in earlier decades before 1991.

Features of Privatisation

1. Disinvestment of the Public Sector. It is the process in which 100 % ownership rights of public sector enterprise are transferred to the private sector.

2. Setting up of BIFR (Board of Industrial and Financial Reconstruction). This board was set up to save sick public sector units from losses or shut down.

3. Dilution of Public Sector with Private Sector. This is done by selling more than 51% of the shares of public sector enterprise to private sector enterprise.

(C) GLOBALISATION

Globalisation can be defined as the process of a closer integration of various economies of the world leading towards the emergence of 'Global Economy.' In case of India, it refers to the integration of various economies of the world by opening the Indian economy to foreign investors and allowing Indian investors to invest abroad. It also implies permitting the required free flow of imports and exports of goods and services.

A true global economy is boundary less with free flow of goods and services, free flow of capital across nations, free flow of information and technology and has common acceptable mechanism for settlement of disputes and global governance.

Features of Globalisation

1. Government removed many restrictions from import of capital goods
(*Heavy Machinery*).
2. FERA (Foreign Exchange Regulation Act) was replaced with FEMA (Foreign Exchange Management Act).
3. Rationalisation of Tariff Structure for export promotion.
4. Reduction of Import Duty.

Major crisis before India during 1991

The main crises faced by India in June, 1991 were as follows:

1. **Fiscal Deficit.** The fiscal deficit reached the level of 6.6 per cent of GDP in 1991–92.
2. **Internal Debt.** Internal debt rose to about 50 % of GDP with interest payment draining about 39 % of the government revenue.
3. **Negative Growth.** Agriculture Production, Foodgrain Production and Industrial Production showed negative growth rates of -2.8 %, -5.3 % and -0.1 % respectively.
4. **High Inflation Rate.** Soaring inflation rate touched 14 %.
5. **Fall in Foreign Exchange Reserves.** There were barely adequate reserves to meet the import requirements of a few weeks. NRI's were withdrawing their deposits at an alarming rate.
6. **Default on International Obligations.** The country was on the verge of defaulting international debt payments. The Government of India had to lease 20 tonnes of gold with repurchase option after 6 months and RBI was allowed to pledge 47 tonnes of gold to the Bank of England to raise a loan of \$600 million.
7. **Negative Balance of Payments.** Value of Imports was always more than the value of Exports which resulted in negative balance of payment for a quite long period of time.

IMPACT OF ECONOMIC POLICY ON BUSINESS AND INDUSTRY

As the structural reforms policies initiated in 1991, the process of Liberalisation, Privatisation and Globalisation have made a significant impact on the working of enterprises in business and industry. The Indian corporate sector has come face-to-face with several challenges due to government policy changes. These challenges can be explained as follows:

1. Increasing Competition. As a result of changes in the rules of industrial licensing and entry of foreign firms, competition for Indian firms has increased especially in service industries like telecommunications, airlines, banking, insurance, etc., which were earlier in the public sector.

Examples. In **airlines**, many private companies like Indigo, Jet Airways, SpiceJet etc. are competing with Air India and Indian Airlines. In **Banking**, many private sector banks like, ICICI, HDFC, HSBC, Standard Chartered, Grindlays etc. are competing with public sector banks like the State Bank of India, Punjab National Bank, Oriental Bank of Commerce etc. and in **Insurance**, private companies like Reliance General Insurance, Bharti AXA, Bajaj Allianz etc. are competing with LIC, GIC and UIC.

2. More Demanding Customers. Customers today have become more demanding because they are well-informed. Increased competition in the market gives the customers a wider choice in purchasing better quality of goods and services as it is a buyer's market in the environment.

Example: Increasing competition has empowered the customers to seek prompt services like after sales services, online services, quick response, mobility in services, digitisation in services and innovations in products and services.

3. Changing Technological Environment. Increased competition forces the firms to develop new ways to survive and grow in the market. New technologies make it possible to improve machines, process, products and services. The rapidly changing technological environment creates tough challenges before smaller firms.

4. Necessity for Change. Before the economic changes initiated by the Government of India, the Indian businessmen could depend upon the ongoing policies and stable work environment but after the economic changes, the market forces made it compulsory to change the way of doing business.

5. Need for Developing Human Resource. Indian enterprises have suffered a lot for long, as it did not emphasise on the trained personnel and did not consider personnel as resource and exploited it to every extent possible. But now the new market conditions require that there must be trained and competent personnel and that must be considered as an asset like other tangible assets.

6. Market Orientation. Earlier firms used to follow production orientation concept. They would first produce and then sell in the market later. But the concept has changed. Now the business enterprises have their orientation to the market. They study and analyse the market first and then produce the goods as the requirements of the market.

7. Loss of budgetary support to the public sector: The central government has reduced its funding to the public sector undertakings due to huge amount of losses over the decades. Public sector units have realised that in order to receive the government patronage, they will have to convert themselves into profitable units from loss-making entities.

Examples, government funding to Delhi Vidyut Board was stopped due to heavy losses over the years and the charge for the distribution of power supply in Delhi was given to three private sector companies. Similar steps have been initiated by the government for government sector banks and telecommunication companies.

Broad features of new Industrial Policy, 1991

1. **Delicensing.** The government reduced the number of industries under compulsory licensing to only six industries.

2. **Role of the Private Sector.** Many of the industries reserved for the public sector were de-reserved. The role of the public sector was limited only to three industries, i.e., Defence, Atomic Energy and Railways, which are of strategic importance.

3. **Disinvestment.** Disinvestment means selling off the shares of public sector companies to the private individuals and institutions. Government has sold its entire share in some of the public sector units (PSUs).

4. **Liberalisation of Foreign Policy.** Policy towards foreign capital was liberalised. The share of foreign equity participation was increased and in many activities, 100 per cent Foreign Direct Investment (FDI) was permitted.

5. **Liberalisation in Technical Areas.** Automatic permission was granted to Indian companies for signing contracts with foreign companies on technology.

6. **Setting up Foreign Investment Promotion Board.** FIPB was set up to promote and channelise the foreign investments in India.

7. **Benefits to Small-Scale Industries.** Government assured all possible help and benefits to small-scale industries.

MANAGERIAL RESPONSE TO THE CHANGES IN BUSINESS ENVIRONMENT

The following is a brief description on the managerial response to the changes in the business environment after the implementation of the Economic Policy 1991:

1. **Acquisitions and Mergers:** Many Indian firms have tied up with various MNC giants and are having either technical collaboration or have merged with them to survive. Some Indian firms have been used as a platform by MNCs to enter the Indian market.

Example: Coke acquired Parle, ACC Cement merged with Ambuja Cement

2. **Diversification and Expansion:** Some successful Indian companies have diversified by introducing new range of products in the market. They have entered into a new segment of market with different range of products and services in which they have no prior experience.

Example: Reliance Industries entered into mobile communication from petrochemicals. AT&T diversified from telecom products to transmission products, wireless products and others. Eureka Forbes diversified its products from vacuum cleaners to water purifiers, food processors and the likes.

3. Joint Ventures with Multinationals: To give an international standard to the existing products and for the retention of existing customers, many Indian companies entered into joint ventures with MNCs.

Examples: Hindustan Motors tied up with General Motors, Mahindra & Mahindra tied up with Ford and Godrej tied up with GE.

4. Brand Building: It is necessary to build brand loyalty among customers as once the brand name is established, it becomes easy to capture the new market, retain existing customers and face the competitors. It is akin to giving something extra to the customers at the same price.

Example: Samsung and LG were the major players who spent huge sum of money for many years to establish and strengthen brand loyalty.

Note: *These days, the stress is on building brand name and creating brand loyalty. However, to make the processes easier and effective, several celebrities are being paid to endorse the brands. For example, Aamir Khan endorses Tata Sky and Snapdeal, Shahrukh Khan for Big Basket and Akshay Kumar for Thums Up. Even the government has jumped on the band wagon by roping in Aamir Khan for national tourism promotion, Shahrukh Khan for West Bengal tourism, Saif Ali Khan for an Olympic gold quest (Olympics 2016) and Amitabh Bachchan for Gujarat tourism.*

5. Boosting Distributions and Selling: Expansion in selling and distribution of product were taken as the core step to grab a larger share of the market. Many Indian companies and MNCs made their efforts to explore new ways to increase the sales of their products.

Examples: Amway, Tupperware and Cossets are some of the companies which rely on direct selling to attract the customers.

6. Customer Focus: Before the entry of MNCs in the Indian market, the Indian firms would focus on higher sales and profits but nowadays, they have started manufacturing product in accordance with customers' needs and stresses on customers' satisfaction. Many Indian firms that did not bother or could not adapt to the changes in the business environment had to leave the market or its major share in the market.

Example: We can see the impact of changes in telecom sector; for instance, MTNL and BSNL could not meet consumers' needs and many private companies have flourishing business. In banking, public sector banks did not pay attention on public utilities and conveniences which led to the entry of private sector banks, which have been doing profitable business by keeping their customers happy.

7. Increase in the Production Capacity: With the abolition of quota system, big companies like Ranbaxy, Reliance Industries and others are focusing more on increasing production to satisfy the larger share of both domestic and global markets.

8. World-class Technology: Most of the manufacturers are trying to adopt the latest technology to increase production thereby reducing the cost of production. The modernisation of plants and machinery has become an important aspect of planning as well.

9. Rise in Managerial Remuneration: MNCs are providing handsome salaries, perquisites and many facilities to their staff; therefore Indian firms also have to follow

suit to retain their employees. In order to do so, the companies are now ready to pay any price. Indian managers are being paid the highest packages in MNCs operating in India and abroad.

10. Cooperation with Labour Unions: Contrary to their role in the past, labour unions have become supportive to the changes in the organisation because they have understood that finally workers will benefit due to such changes. In private sector, the disputes between labour and management have reduced but the scenario in the public sector still needs change.

11. Closure of Indian Companies: Many Indian companies could not survive after the entry of MNCs due to low financial budget and scale of operations.

Examples: The companies manufacturing televisions like Weston, EC, Bush, Onida and T-Series plus soft drink companies like Campa, Thrill, Goldspot and Rimzim could not bear the brunt of MNCs.

GLIMPSES

- **Business Environment.** It refers to sum of external forces which operate outside the control of the business organisations and internal forces which the business organisations have to face for achieving their objectives.
- **Opportunities.** Opportunities come in the form of opening of new areas/products demanded by customer, availability of new technologies, etc.
- **Constraints.** Constraints are in the form of economic conditions, government regulations, customs, non availability of supply of labour and other factors, etc.
- **Environmental Scanning.** Environmental scanning means a process by which organisations monitor their relevant environment to identify opportunities and threats affecting their business.
- **Features of Business Environment**
 - (a) Totality of External Forces
 - (b) Specific and General Forces
 - (c) Interrelation
 - (d) Dynamic nature
 - (e) Uncertainty
 - (f) Complexity
 - (g) Relativity
- **Significance of Understanding Business Environment**
 - (a) It enables to identify Opportunities and get the First Mover Advantage.
 - (b) It helps to identify Threats and Early Warning Signals.
 - (c) It helps in Tapping Useful Resources.
 - (d) It helps in Coping with Rapid Changes.
 - (e) It helps Planning and Policy Formulation.
 - (f) It helps in Improving Performance.
- **Dimensions of Business Environment**
 - (a) Economic Environment
 - (b) Social Environment
 - (c) Political Environment
 - (d) Legal Environment
 - (e) Technological Environment
- **Broad Features of Economic Policy, 1991**
 - (a) Delicensing
 - (b) Role of Private Sector
 - (c) Disinvestment
 - (d) Liberalisation of Foreign Policy
 - (e) Liberalisation in Technical Areas
 - (f) Setting up of Foreign Investment Promotion Board
 - (g) Benefits to Small-Scale Industries
- **Elements of Economic Policy, 1991**
 - A. Liberalisation.** Liberalisation means making rules and regulations of running economic units (industrial units) liberally.

Features of Liberalisation:

- (a) Abolition of License
- (b) Removal of Restrictions
- (c) Free movement of Goods and Services
- (d) Freedom of Fixation of Prices
- (e) Relaxation in Taxation
- (f) Lifting Controls
- (g) Simplifying Procedures
- (h) Foreign Direct Investment

B. Privatisation. Privatisation refers to giving greater role to private sector and reducing the role of public sector.

Features of Privatisation:

- (a) Disinvestment of the Public Sector
- (b) Setting up of BIFR (Board of Industrial and Financial Reconstruction)
- (c) Dilution of Public Sector with Private Sector

C. Globalisation. It refers to integration of various economies of the world by

opening the Indian economy to foreign investors and allowing Indian investors to invest abroad.

Features of Globalisation

- (a) Removal of restrictions on import of capital goods.
- (b) Removal of FERA (Foreign Exchange Regulation Act) was replaced with FEMA (Foreign Exchange Management Act).
- (c) Rationalisation of Tariff Structure.
- (d) Reduction of Import Duty.

● Impact of Government Policy Changes on Business and Industry

- (a) Increasing Competition
- (b) More Demanding Customers
- (c) Changing Technological Environment
- (d) Necessity for Change
- (e) Need for Developing Human Resource
- (f) Market Orientation

OBJECTIVE TYPE QUESTIONS

MULTIPLE CHOICE QUESTIONS (MCQs)

1. Which of the following does not characterise the business environment?
 - (a) Uncertainty
 - (b) Employees
 - (c) Relativity
 - (d) Complexity.
2. Which of the following best indicates the importance of business environment?
 - (a) Identification
 - (b) Improvement in performance
 - (c) Coping with rapid changes
 - (d) All of these
3. Which of the following is an example of social environment?
 - (a) Money supply in the economy
 - (b) Consumer Protection Act
 - (c) The Constitution of the country
 - (d) Composition of family.
4. Liberalisation means:
 - (a) Integration among economies.
 - (b) Reduced government controls and restrictions.
 - (c) Policy of planned disinvestments.
 - (d) None of the above.
5. Which of the following does not explain the impact of government policy changes on business and industry?
 - (a) More demanding customers
 - (b) Increasing competition
 - (c) Change in agricultural prices
 - (d) Market orientation

6. Which of the following is an example of political environment?
 - (a) India is signing Double Taxation Avoidance agreements with a number of countries.
 - (b) Good educational institutions are in a great demand.
 - (c) Rates of saving in India are high as compared to other countries.
 - (d) New models of mobile phones are rich in features.
7. The removal of entry and growth restrictions on the private sector enterprises is:
 - (a) Privatisation
 - (b) Liberalisation
 - (c) Globalisation
 - (d) Disinvestment
8. The “New Industrial Policy” was announced in the year:
 - (a) 1990
 - (b) 1991
 - (c) 1992
 - (d) 1993
9. Maruti became the leader in small car market in India because:
 - (a) It got first mover advantage.
 - (b) It coped with rapid economic changes.
 - (c) It formulated its policies well.
 - (d) All of the above.

ANSWERS

1. (b) 2. (d) 3. (d) 4. (d) 5. (c) 6. (a) 7. (b) 8. (b) 9. (a)

FILL IN THE BLANKS WITH CORRECT WORDS

1. The term _____ means the totality of all individuals, institutions and other forces that are outside a business.
2. Business environment is a complex phenomenon that is relatively easier to understand in _____ but difficult to grasp in its _____.
3. _____ comes in the form of opening of a new areas/products demanded by customer, availability of new technologies etc.
4. External environment consists of operating environment and _____ environment.
5. Investors, customers, competitors and suppliers come under _____ forces.
6. _____ refer to the external environment trends and changes that will hinder a firm's performance.
7. Business environment is a source of both _____ and _____ for a business enterprise.
8. Existing structure of the economy in terms of relative role of private and public sector refers to _____ environment.
9. _____ environment of business include the social forces like customs and traditions, values etc.
10. Specific attitudes that elected government representatives hold towards business is called _____ environment.
11. Removal of restrictions on the movement of goods and services refers to _____ .
12. The term _____ means transfer of ownership in the public sector enterprises to the private sector.

13. A truly _____ implies a boundaryless world where there is free flow of goods and services across nations.
14. The aim of _____ was to curb corruption, counterfeiting the use of high denomination notes for illegal activities.

ANSWERS

- | | | |
|---------------------------|--------------------|-------------------|
| 1. Business environment | 2. Parts/ totality | 3. Opportunity |
| 4. General | 5. Specific | 6. Threats |
| 7. Opportunities/ threats | 8. Economic | 9. Social |
| 10. Political | 11. Liberalisation | 12. Disinvestment |
| 13. Global economy | 14. Demonetisation | |

STATE WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE

1. Business environment is the sum of all internal forces which are likely to influence the performance of a business enterprise.
2. Nothing is static in the business environment.
3. Investment by NRIs and foreign investors or Foreign Direct Investment come under economic environment.
4. Process of demonetisation increased the supply of funds than demand and hence lending rates decreased.
5. Black money works as parallel economy to the main economy of a country.
6. Earlier firms used to follow production orientation concept and now they study and analyse the market first and then produce the goods.
7. Disinvestment means issuing of the shares of public sector companies to the private individuals and institutions.
8. Monetary policy of Indian Government has moved India towards globalisation.
9. Our economy consists of private sector and public sector.
10. Economic environment represents the type of economy and its conditions.

ANSWERS

- | | | | | | | | | | |
|------|------|------|------|------|------|------|------|------|-------|
| 1. F | 2. T | 3. T | 4. T | 5. T | 6. T | 7. F | 8. F | 9. T | 10. T |
|------|------|------|------|------|------|------|------|------|-------|

REMEMBERING AND UNDERSTANDING QUESTIONS

VERY SHORT ANSWER TYPE QUESTIONS

(1 MARK)

1. What is Business Environment?

Ans. Forces affecting the performance of an organisation that are outside its control are called as Business Environment.

2. “The understanding of Business Environment enables the firm to identify opportunities.” What is meant by opportunities here?

Ans. It refers to the positive external trends that help an enterprise to improve its performance.

3. What is meant by threats?
- Ans.** It refers to those environmental trends which hinder the performance of an enterprise.
4. What is environment scanning?
- Ans.** Environment scanning means a process by which business organisations monitor their relevant environment to identify opportunities and threats affecting their business.
5. What do you mean by Innovation?
- Ans.** Producing goods and services by new methods is called as Innovation.
6. Why is business environment uncertain?
- Ans.** Business environment is uncertain due to unexpected rapid changes in the external environment.
7. How have customers benefited by increased competition after liberalisation, privatisation and globalisation?
- Ans.** Due to the implementation policy of 1991, the customers have a wider choice to buy the product of their own choice.
8. Why is it said that 'Business Environment' is a 'Relative Concept'?
- Ans.** Business environment is said to be a relative concept as it differs from country to country and place to place.
9. "It is very difficult to know the influence of a particular force on the functioning of a business enterprise." Which feature of business environment is being highlighted?
- Ans.** Complexity.
10. "An enterprise must give equal status to male and female workers." Which environment is indicated in the given statement?
- Ans.** Social environment.
11. How can the firms cope up with changing technological environment?
- Ans.** They need to monitor the changes taking place and find new ways to cope up with the changing trends.
12. "Each business is affected by policies of the government." Identify the environment.
- Ans.** Political Environment.
13. "Rise in the income of people increases the demand." Identify the kind of environment.
- Ans.** Economic Environment.
14. What do you mean by Liberalisation?
- Ans.** Liberalisation means making rules and regulations to run industrial units either by completely removing or reducing control.
15. Name the economic reforms introduced to free Indian business from unnecessary controls and restrictions.
- Ans.** Liberalisation.
16. Out of Liberalisation, privatisation and globalisation, which one is associated with "abolition of licensing requirement in most of the industries"?
- Ans.** Liberalisation.

17. "It integrates national economy with the world economy by removing barriers of international trade and capital investments." Identify the term related to the above statement.
- Ans.** Globalisation.
18. What do you mean by Globalisation?
- Ans.** It refers to integration of various economies of the world by opening the Indian economy to foreign investors and allowing Indian investors to invest abroad.
19. An unstable government is one of the major causes of weak industrial base. Identify the key component of business environment highlighted in the given statement.
- Ans.** Political Environment
20. "Preference of Smart TV instead of Plasma, LED or LCD." Name the dimension of business environment highlighted in the given statement.
- Ans.** Technological Environment
21. Which policy of Indian Government has moved India towards globalisation?
- Ans.** The Industrial Policy of 1991.
22. What do you mean by disinvestment?
- Ans.** Disinvestment means selling off the shares of public sector companies to the private individuals and institutions. In other words, it refers to the transfer of control of the public sector enterprises to the private sector due to the sale of public sector units to private sector.
23. What do you mean by first mover advantage?
- Ans.** Identification and availing of opportunities earlier than the competitors.
24. Which sector was given importance after independence?
- Ans.** Public (Government) Sector enterprises.
25. What was the responsibility given to private sector after independence?
- Ans.** Development of the consumer goods industry was the responsibility given to private sector.
26. What was the responsibility given to public sector after independence?
- Ans.** Installing heavy machineries was the responsibility given to the public sector.

SHORT ANSWER TYPE QUESTIONS

(3–4 MARKS)

1. Explain the role of political environment in shaping the business.

Ans. Success or failure of the business organisations is mostly affected by the nature, stability and attitude of government towards business sector. Business enterprises have to understand the political structure in the economy in which they operate and respect the laws of the country. Many a times, government also seeks their advice to frame rules and regulations to boost the industrial growth.

Example: It was the political environment that paved the way to implement the concept of LPG (Liberalisation, Privatisation and Globalisation) due to which many MNCs were able to operate in India and India was able to maintain a huge amount of foreign exchange reserves to meet its contingencies.

2. List some important factors that influence the working of business enterprises.

Ans. Following are the important factors that influence the working of business enterprises:

- (a) Changes in Economic Policies (b) Political Uncertainty in the Country
(c) Increase in the Rate of Competition (d) Changes in Fashion.

3. “Social environment of business is important for a business enterprise.” Explain.

Ans. Business is a part of the society and it has to be operated with the willing cooperation of the society. Anything which goes against the interest of the society leads to rejection of the goods and services and ultimately endangers the survival of a business enterprise. So, it is very important for a business enterprise to produce the goods and render its services to the society which it needs, at a reasonable price keeping its social responsibility in mind.

4. Enumerate negative as well positive impacts of liberalisation and globalisation.

Ans. The negative impacts of liberalisation and globalisation are as follows:

Positive Effects	Negative Effects
(a) Increased quality of life	(a) Increased competition
(b) Increase in the demand of the customers	(b) Decline in the role of Public Sector
(c) Awareness among customers towards their rights and responsibilities	(c) Destabilisation of Protected Environment
(d) Ease in Imports	(d) High labour turnover due to e-technology
(e) Increase in the role of Private Sector	(e) Threat from MNCs
(f) Rapid changes in technology	(f) Threat to our Culture and Values
(g) Development of Human Resource	(g) Joint Ventures
(h) Foreign Direct Investment	(h) Mergers
(i) Scope for SSI's to provide inputs	(i) Closure of some Local Industries
(j) Reduction of Monopoly	(j) Free Economy

5. “Environment provides both constraints and opportunities.” Comment.

Ans. Business environment provides both constraints and opportunities.

(a) **Opportunities.** Opportunities are in the form opening of new areas, branches, products, etc.

Example:

- Growing demand of Air Conditioners in India has attracted Godrej/Kirloskar, etc., (local players) and LG Electronics/Samsung, etc., (Multinationals) to manufacture and sell its products in India.
- Pepsi and Coke got the opportunity to set up their businesses again in India.

(b) **Constraints (Threats).** These are in the form of economic conditions, customs, government regulations, availability of natural resources, etc.

Example:

1. FDI is not picking up in India due to political and bureaucratic hurdles.
2. Claims made by the Centre of Science and Environment (CSE) on use of pesticides more than desired limits in soft drinks became a threat for Pepsi and Coke.

ANALYSIS BASED QUESTIONS

VERY SHORT ANSWER TYPE QUESTIONS

1. Government of India decided to allow marketing public sector undertakings to fix their own price for petrol and diesel. Which economic reform is the reason of this change in government's policy?
Ans. The reason for this change in the Government's Policy is 'Liberalisation'.
2. Bombay Stock Exchange (BSE) sensx closed 124 points higher as the Rupee recovered from an all-time closing low. It was expected that the government would take more steps to support the currency. Identify the component of environment which led to the recovery in the value of Rupee.
Ans. Political Environment.
3. How does change in the government policies affect the working of the business organisations?
Ans. Increase in the taxes may make the things expensive to buy.
4. How do technological developments affect the working of the business environment?
Ans. Changes in the technologies may render the existing products obsolete.
5. How does political instability affect the working of the business environment?
Ans. It may create fear in the minds of investors, public and businessmen.
6. How does competition in the business environment affect the working of the business organisations?
Ans. It may reduce the profit margin of the existing firms.
7. How does change in fashion and tastes of consumers affect the working of the business organisations?
Ans. It may shift the demand of existing products to new ones.
8. "C.B.S.E. changed the method of marking of answer scripts from manual to electronic (online) from at the senior secondary level of education." Identify the environmental factor which led to this change.
Ans. Technological change.
9. "The celebration of festivals brings opportunities for the businessmen to increase their sales." Which dimension of the business environment is referred to in the above statement?
Ans. Social Environment.
10. Name the economic reform which simplified the export-imports procedures.
Ans. Liberalisation.
11. How has the concept of L.P.G. affected the lives of consumers?
Ans. The concept of L.P.G. (Liberalisation, Privatisation and Globalisation) in economic policy has raised the quality of life, standard of life, standardised products and services at the competitive prices with utmost customer care.

12. What is meant by the term, 'First Mover Advantage'?
- Ans.** To capture the opportunities before the competitors conceive the business idea.
13. What is meant by the term, 'Warning Signal'?
- Ans.** To know about the threats that are likely to happen in the future and get prepared to compete with other business firms.
14. Under which component of business environment are the economic and efficient methods of production used?
- Ans.** Technological Environment.
15. Name the concept which integrates a country with the rest of the world.
- Ans.** Globalisation.
16. Which concept of business environment is related to the innovation of the world's cheapest 'lakhtakia car' known as 'Nano'?
- Ans.** Technological Environment.
17. What is meant by Market Orientation?
- Ans.** Market orientation relates to analysing the market needs by the business firms.
18. How can environment awareness help managers?
- Ans.** Environment awareness helps the managers to identify various threats in time.
19. How can political stability be beneficial to the economy?
- Ans.** Political stability creates confidence among the business people to invest and take up new ventures.
20. What was the immediate cause of economic reforms in 1991?
- Ans.** Insufficient foreign exchange reserves.
21. Delhi University decided to issue certificates to students which will carry a security thread, bar code and watermark. Which component of business environment is reflected with this decision?
- Ans.** Technological Environment.
22. 'There is great demand for reservation in jobs for economically backward classes'. Identify the type of dimension of business environment mentioned.
- Ans.** Social Environment
23. 'The opportunity for one organisation may prove threat for others'. Explain by giving one example.
- Ans.** People are changing their lifestyles and moving towards the use of natural and herbal products. Such change has become an opportunity for the Patanjali company but a threat to other companies that manufacture products with added chemicals.
24. A government has directed all the leading companies to voluntarily participate in the Clean India Mission and asked them to make toilets in cities and villages. Which dimension of environment is affected due to such direction?
- Ans.** Social environment.

SHORT ANSWER TYPE QUESTIONS

1. Explain by giving any four points, why "in the present competitive market, it is essential for a business to remain alert and aware of its environment"?

Ans. [*Hint: Explain the importance of business environment.*]

2. "Management of every enterprise can be benefited from being aware of different dimensions of Business Environment." Explain any four such dimensions.

Ans. [Hint: Explain the components of general environment, i.e., Economic Environment, Social environment, Political Environment, Legal Environment and Technological Environment.]

3. Identify the type or dimension of environment to which the following are related:
- Banks reducing interest rates on housing loans.
 - An increase in number of working women.
 - Booking of air tickets through the Internet.
 - Alcoholic beverages are prohibited to be advertised on 'Television Media'.

Ans. (a) Economic Environment
(b) Social Environment
(c) Technological Environment
(d) Legal Environment

4. CBSE recently introduced 'Financial Marketing Management' as one of the new subject at secondary level. One publisher availed this 'opportunity' and published books on legal studies. Explain the term opportunity and state which important aspect has been availed by the publisher.

Ans. (a) Opportunity means demand of a product/service created by environment.
(b) The publisher has availed the 'First Mover Advantage' by scanning the Business Environment.

5. After the economic changes were implemented in 1991, the market forces made it compulsory for the Indian entrepreneurs to change the way of doing business. Identify and explain the impact of economic policy on the business and industry highlighted by this statement.

Ans. 'Necessity for change': (Explain briefly)

6. The government restricted to issue subsidised cylinder from 12 to 9 per family per year or the government requested people to surrender subsidised cylinder whose annual income exceeds ₹ 10 lacs.
- Identify the component of business environment reflected in the above case.
 - State the reason for identification of the component with its impact on the economy.

Ans. (a) Political environment

Reason: It relates to the forces which are concerned to management of public affairs.

- (b) **Impact on the economy:** The government would be able to reduce its expenditure and the savings thus made may be utilised for the benefits of poor people. So, the effects become economic and social.

7. 'Opportunity for one organisation may prove threat for others.' Explain with a suitable example.

Ans. Yes, it happens when the changes in the environment takes place in the form of changes in the technology, pattern and government policies and changes in the tastes of customers and so on.

Examples: e-tailers or online sellers have taken vast share of market of bricks-and-mortars retailers (small offline retailers). Thus, online selling is opportunity for e-tailers whereas a threat for the retailers.

8. The government of India proposed to encourage e-transactions by encouraging the use of plastic money (through debit, credit and gift cards) or net-banking by allowing deductions in usage charges, fees and income tax exemptions.

(a) Which component of business environment does it represent?

(b) What would be the impact on the economy if e-transactions are promoted?

Ans: (a) The relevant component may either be of the following:

Economic Environment: Such measures will help to reduce corruption, tax evasion

Technological Environment: Use of plastic money and e-transactions

Legal Environment: If it is mandatory to transact through e-banking when the amount of transaction exceeds a certain limit

(b) Cashless economy, reduction in tax evasion, compulsory disclosure of income and wealth, reduction in undisclosed incomes etc.

9. The government of India started many initiatives under the guidance of the prime minister. Among such initiatives, one of them is 'Make in India' to attract foreign investors to manufacture and sell in India. Identify and explain the dimension of business environment affected due to this initiative.

Ans: **Political Environment:** (Explain briefly)

10. Many state governments of India banned the sale of Maggie Noodles on the allegations of high levels of lead found in this popular snack. As the controversy escalated, shares of the company saw the steepest decline. Identify the dimensions of business environment highlighted above with reasons.

Ans: Dimensions highlighted here:

(a) Social environment due to health concerns of the public

(b) Legal environment due to mandatory order by the state governments.

11. How can interest rates, inflation rates, changes in disposable income of people, stock market indices and the value of rupee change the management practices in a business enterprise? Explain with the help of an example. (**Compartment Outside Delhi 2016**)

Ans: Short and long-term interest rates affect the demand for the product and services. For example, in case of construction companies and automobile manufacturers, low long-term rates are beneficial because they result in increased expenditure by the consumers for buying homes and cars.

12. 'The Indian corporate sector has come face-to-face with several challenges due to government policy changes in business and industry. Explain any four such changes.

(**Compartment Delhi 2014**)

Ans. *Refer:* Impact of government policy changes on business and industry.

LONG ANSWER TYPE QUESTIONS

1. Explain by giving any four points, why in the present competitive market, it is essential for a business to remain alert and aware of its environment?

Ans. In the present day of competitive market, it is essential for a business to remain alert and aware of its environment due to the following points:

(*Refer:* Significance of Understanding Business Environment)

APPLYING AND EVALUATION BASED QUESTIONS

VERY SHORT ANSWER TYPE QUESTIONS

1. India opened up its economy to the outside world in 1991 to encourage foreign capital in the Indian Industry through LPG. To promote the initiative, the prime minister Mr Narendra Modi attracted various foreign investing partners to produce and sell the goods in India under its 'Make in India' initiative. The foreign companies like 'I-phone' found it extremely difficult to cut through the bureaucratic red tape for doing business in India which later got permission to install manufacturing units in India. Identify a dimension of business environment with appropriate reason associated in the above case.

Ans. Dimension of Business Environment: (Any one)

- (i) **Economic environment**

Reason: Opening the economy to encourage foreign capital.

Or

- (ii) **Political environment**

Reason: Red tapism.

2. Telecom sector was opened up to private sector as a reform under economic policy 1991. Nokia became the first cellular company to operate in 1994 and dominated the market. Later, it launched Windows-based mobile phones which did not attract the customers. Gradually, Nokia lost its market share to its competitors and was sold to Microsoft. The management of Microsoft examined the environment and made suitable course of action by launching mobile phones based on Android operating system. Identify any one point of importance of business environment with appropriate actions reflected in the above case.

Ans. Point of importance of business environment: (Any one)

- (i) **Business environment helps in coping with rapid changes.**

Reason: Rapid changes in technology, more demanding customers, global intense competition.

- (ii) **It helps in assisting in planning and policy formulation.**

Reason: Entry of new market players makes an enterprise think afresh.

- (iii) **It helps in improving performance.**

Reason: Monitoring environment and adopting suitable business practices help in improving present performance.

3. Hindustan Unilever Limited, established in 1933, the oldest consumer product brand in India, has been penetrating even into the remotest parts of India, from the hills to the deserts to villages. Market forces have become turbulent, Patanjali products have become biggest threat and as a result, it had to modify its strategy by launching 'Ayush', a bouquet of premium ayurvedic products, to attract bottom end of the customers who are value conscious.

Identify an impact of government policy changes on business environment highlighted by the statement.

Ans. Impact of government policy changes on business environment: (anyone)

(i) **Necessity for change**

Reason: Turbulent market conditions compel to modify the operations.

(ii) **More demanding customers**

Reason: Increased competition gives the customer wider choice.

(iii) **Market orientation**

Reason: Study and analyse the market first and produce goods accordingly.

4. Aadharika is the General Manager in Max India Limited who always keeps a constant watch on the changes in the General Environment, updates his company with all such latest changes and formulates various types of plans in consultation with his subordinates. Why is it important to analyse business environment?

Ans. Analysis of business environment is important to take the first mover advantage, identify threats and opportunities, tap useful resources and cope with the rapid changes.

SHORT ANSWER TYPE QUESTIONS

1. Mahinder Agro Ltd. started a new venture for distribution of harmful and chemical fertilizers free vegetables. They conducted a survey to find out consumer preferences for such vegetables.

They found that most of the consumers were concerned about the harmful chemicals being used in growing the vegetables. The found that 90% of the households were searching for its alternatives. The company contacted a group of agriculture experts to lay down the procedure for growing the vegetables by the farmers. They decided to train the farmers in new technology to grow chemical free vegetables according to new innovative methods. The experts also suggested soil management techniques through which farmers would be able to create an abundant and lasting harvest.

Identify and explain the two dimensions of business environment highlighted in the above para. (CBSE 2019 Delhi Region)

Ans. (a) **Social Environment :** (Explain briefly)

Reason : Consumers preferences

(b) **Technological Environment :** (Explain briefly)

Reason : Innovative method.

2. 'Soft and Silk Crafts (India) Limited' has been manufacturing ready-made textiles, maintains high reputation in the international market and has been dumping its untreated poisonous chemicals and wastes in the river 'Yamuna' which has polluted the river and created many health problems for Delhiites.

Identify and explain the related environmental dimension.

Ans. Social Environment: (Explain briefly)

3. Prime Minister of India has announced 'Jan Dhan Yojna'. Which component of business environment does it belong to? Give any two other examples of this component.

Ans. Economic Environment: (Explain briefly)

Examples: (i) Attractive Schemes for depositing and lending money (ii) Permission to private business entrepreneurs to enter into insurance and banking sector.

4. Earlier the firms would produce first and sell later but now the firms have to study and analyse the market first and then produce goods accordingly as the customers are well informed.
- (a) Identify the challenges the business firms are facing due to the impact of government policies.
 - (b) State the dimensions that can be attributed to the challenges identified above.

Ans. (a) Challenges identified are market orientation and more demanding customers.
(b) Social environment can be attributed to both types of challenges.

5. 'Soft and Silk Crafts (India) Limited' has been manufacturing ready-made textiles, maintains high reputation in the international market and has been dumping its untreated poisonous chemicals and wastes in the river 'Yamuna' which has polluted the river and created many health problems for Delhiites.
- (a) Identify and explain the related environmental dimension.
 - (b) Which values have been overlooked by the manufacturer?

Ans. (a) **Social Environment:** (Explain briefly)
(b) **Values overlooked:** Environmental protection, interest of society at large, concern for human life, respect for law and order and responsible behaviour.

6. To implement the initiative on 'demonetisation of currency' more effectively, the Government of India decided to push fore-transactions by encouraging the use of e-wallets, plastic money (through debit, credit, gift cards, etc.), Unified Payment Interface (UPI – to transfer funds from one bank to another), Aadhar-enabled electronic data capture (EDC) machines or net-banking by waiving processing charges, fees and allowing discounts in payments.

- (a) Which component of business environment is associated in the above situation?
- (b) What would be the impact on the economy if e-transactions are promoted? State two reasons.

Ans. (a) **Technological environment**

Reason: to encourage e-transactions to implement initiative of demonetisation of currency.

(b) **Economic environment:**

Reason: Promotion of cashless economy, reduction in tax evasion, compulsory disclosure of income and wealth, reduction in undisclosed incomes, etc.

7. The Government of India has recently come up with an amendment to Section 6 of the Payment of Wages Act 1936, to allow employers of certain industries to make payment through various electronics modes of payments. The amendment will be applicable to all the public sector undertakings for wages disbursement using e-payment options. This is another milestone in the direction to further push to cashless economy. Identify and explain any two dimensions of business environment which relate to the above mentioned case. (Sample Paper 2018–19)

Ans. The various dimensions of business environment related to the above case: (any two)

(a) **Political Environment:** (Explain briefly)

Reason: Special concern towards business and industries to enable them ease in payment of wages and salaries

(b) **Legal Environment:** (Explain briefly)

Reason: Amendment in the Act

(c) **Technological Environment:** (Explain briefly)

Reason: Enabling e-payment options

8. It is heartening that the implementation of compliance requirements of the Companies Act, 2013 has progressed substantially with NIFTY 500 companies. Data shows a significant increase in women's participation in the top management of Indian Companies from 5% few years ago to 13% now. Even companies which are not in NIFTY 500 have undertaken drives to increase women's participation across different areas of work. The government had also announced that it would support such companies.

Identify and explain the dimensions of business environment discussed before which brought about the change. (CBSE Sample Paper 2017–18)

Ans. The dimensions of Business environment *which brought about the change* are: (Any two)

(a) **Legal:** (Explain briefly)

Reason: Implementation of compliance requirements.

(b) **Social:** (Explain briefly)

Reason: Companies have undertaken drives to increase women's participation.

(c) **Political:** (Explain briefly)

Reason: The government's promise to support such companies.

9. A recent rate cut in the interest on loans announced by the banks encouraged Amit, a science student of Progressive School to take a loan from State Bank of India to experiment and develop cars to be powered by fuel produced from garbage.

He developed such a car and exhibited it in the Science Fair, organised by the Directorate of Education. He was awarded the first prize for his invention.

Identify and explain the dimensions of business environment discussed in the above case. (Delhi 2016)

Ans. (a) **Economic environment:** (Explain briefly)

Reason: Recent cut in interest rate.

(b) **Technological environment:** (Explain briefly)

Reason: Developed cars to be powered by fuel produced from garbage.

10. With the change in the consumption habits of people, Neelesh, who was running a sweets shop, shifted to chocolate business. On the eve of Diwali, he offered chocolates in attractive packages at reasonable prices. He anticipated huge demand and created a website chocolove.com for taking orders online. He got a lot of orders online and earned huge profits by selling chocolates.

Identify and explain the dimensions of business environment discussed in the above case. (Outside Delhi 2016)

Ans. (a) **Social environment:** (Explain briefly)

Reason: Change in the consumption habits of people.

(b) **Technological environment:** (Explain briefly)

Reason: Created a website chocolov.com

LONG ANSWER TYPE QUESTIONS

1. 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 and people have developed a taste for better quality products even though they may have to pay more. The distribution system of goods and services has changed. The aspiration levels have also increased. The government has also liberalised its economic policies in this regard and permitted even cent per cent F.D.I. in some sectors of retailing.
 - (a) Identify the 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. (Quote the lines)
 - (b) What has been the impact of these changes with regard to globalisation and privatisation?

Ans. (a) The changes in the business environment due to the entry of business organisations in retailing sector are as follows:

Environment	Change on the business environment/Quoted Lines
A. Economic	The income level of the customer has risen.
B. Social	The public has developed taste for better quality products.
C. Technological	The distribution system of goods and services has changed.
D. Political	The government liberalised the policies for smooth flow of business activities.
E. Legal	Legal entry has been permitted to the MNCs to invest cent per cent Foreign Direct Investment.

(b) Impact of changes with regard to Globalisation and Privatisation.

(Refer: Impact of Economic Policy changes on business and industry)

2. As a part of economic reforms, the Government of India announced a new industrial policy in July 1991, which sought to liberate the industry from the shackles of the licensing system, drastically reduce the role of the public sector and encourage foreign-private participation in industrial development.
 - (a) Identify the basis on which the liberalisation of Indian industries has taken place. (any two points)
 - (b) What has been the impact of government policy changes with regard to globalisation and privatisation? (any three points)

Ans. (a) Liberalisation of the Indian industry has taken place with respect to:

- Abolishing licensing requirements in most of the industries.
- Freedom in deciding the scale of business activities.
- Freedom in fixing the prices of goods and services.
- Reduction in tax rates.
- Simplifying the procedures for imports and exports.
- Making it easier to attract foreign capital and technology to India.

(b) Impact of changes in the government policy with regard to globalisation and privatisation.

(Refer: Impact of Government Policy Changes on Business and Industry)

3. With rapid advancements in the field of replacing manual work with machines, a Robot named 'Sujan' has been invented and developed and is likely to get the citizenship of the country of its origin.

It has led to a stage where machines are being used in place of human beings. 'Sujan' is doing all types of work whether routine or hazardous and even answering the queries of people. However, this issue has to be carefully looked into keeping in mind the consumer attitude towards product innovations, problem of unemployment and its impact on the quality of life. Through the orders and decisions of various commissions and agencies at Centre, State or local level, the Indian Government is playing a very significant role in balancing the use of human and machine power. Various dimensions of business environment are being discussed in the above para.

By quoting the lines from the above identify and explain any three dimensions.

(Compartment Delhi/Outside Delhi 2018)

Ans. (i) **Technological Environment:** (Explain briefly)

Quoted lines: 'With rapid advancements in the field a robot named 'Sujan' has been invented and developed'.

(ii) **Social Environment:** (Explain briefly)

Quoted lines: 'The consumer attitude towards product innovationsthe quality of life'.

(iii) **Legal environment:** (Explain briefly)

Quoted line: 'Through the orders and decisions of various commissions and agencies at Centregovernment is playing a very significant role'.

Note: Marks allocation as per CBSE marking scheme [(1/2 mark for identification of each dimension + 1/2 mark for Quoting + 1 mark for explanation) 3 = 6 marks]

4. 'Konark Ltd.' is an electric goods manufacturing enterprises situated in Shivpuri, Madhya Pradesh. It is earning a very low revenue in comparison to a competing electronic goods manufacturing enterprise, 'Nova Ltd.' situated in Mumbai. Both Konark's and Nova's operations are affected directly by the investors, customers, competitors and suppliers, which are unique to their respective locations. In addition to this, individual forms of this field are affected indirectly by the factors like the money supply in the economy, composition of the families, the technological changes, etc.

(a) Identify and state the feature of the concept discussed in the above paragraph.

(b) Also, state any four points of importance of this concept.

(Delhi/Outside Delhi 2018)

Ans. (a) **Specific and General Forces:** (Briefly explain)

(b) **Importance of business environment:** Refer to the topic 'importance of business environment'.

Note: Marks allocation as per CBSE marking scheme [(1/2 mark for identifying the feature + 1/2 mark for stating the feature) + (1/2 mark for heading + 1/2 mark for explanation) 4 = 5 marks]

5. (Case Problem based on Unit): In the fierce battle between 'Amazon' and 'Flipkart' for supremacy in the Indian e-commerce space, 'Snapdeal' decided to reduce the marketing fee it charges from online vendors on its portal and asked the vendors to lower the price so that it can shore up sales on its portal. Vendors agreed to this proposal as they

were not likely to affect their incomes. In addition, it decided to deliver the goods within a day to increase average purchase and getting towards profitability and hired more employees preferably females and differently abled (*divyaang*) persons.

- (a) By quoting the lines, identify a characteristic of management highlighted in the above paragraph.
- (b) Identify and explain which principle of management you feel was applied with the consent of vendors.
- (c) Highlight the values the company is likely to achieve.

Ans. (a) **Characteristic of management:** (Any one)

Management is dynamic: (Explain briefly)

Quoted line: '...decided to reduce the marketing fee'.

Management is goal-oriented: (Explain briefly)

Quoted line: '...it can shore up sales on its portal'.

Management is a group activity: (Explain briefly)

Quoted line: 'Vendors agreed to this proposal...'

- (b) **Esprit de corps:** According to this principle, the managers try to improve team spirit among their workforce to improve efficiency in operations. Here, the management of 'Snapdeal' and online vendors are working in team spirit by passing the benefit of commission cut to the buyers to beat their competitors.

- (c) **Values likely to be achieved:**

- Generation of employment opportunities.
- Push to national income.

6. **(Case Problem based on Unit):** Innovations and research has made it possible to manufacture low cost, small cars. Many new manufacturers have launched their economy models in the market. Air Wings Motors Limited decided to open up a new branch in remote area of West Bengal to manufacture small car 'Mini'. This also created employment and business opportunities for the rural youth and raised the standard of living of the people in the region.

- (a) Which objective is the management trying to achieve? Explain.
- (b) Identify and explain the component of business environment emphasised in the above situation.
- (c) State any two values that have been emphasised in the above case.

Ans. (a) **Social Objective:** (Explain briefly)

(b) **Technological Environment:** (Explain briefly)

(c) **Values Emphasised:**

- Equal Opportunity for growth and development.
- Social responsibility.
- Concern for the unemployed.

7. **(Case Problem based on Unit):** Lok Seva Clinic does not display any information relating to any free medical treatment to BPL (Below Poverty Line) Cardholder, even after the court's orders. It charges high fees for consultation from its patients and refuses to treat the poor patients. Moreover, the female medical staff does not treat such patients with due care due to insufficient salaries. It also pays attention to the medical representatives and agents of drug-manufacturing companies and takes gifts and commission.

- (a) Which feature of management as a profession is not being followed by the clinic?
- (b) By quoting the lines, identify the principle of management being violated.
- (c) In your view, what values are being neglected by the clinic?

Ans. (a) The clinic is not following the code of conduct in the medical profession.

Code of Conduct: It refers to the set of rules and regulations to be followed by the members of a profession compulsorily while serving the society.

- (b) Principle violated here is 'Equity' as only female staff is getting low salaries.

Quoted Lines: 'The female medical staff does not treat such patients with due care due to insufficient salaries'.

Principle of Equity: (Explain briefly)

- (c) **Values neglected:**

- Obedience of court's orders.
- Obedience of professional code of conduct.
- Fulfillment of social responsibilities.
- Care of unprivileged section of the society.

- 8. (Case Problem based on Unit):** In order to achieve target production of 50,000 units per month, the production manager of Action Shoes Ltd. had to operate on double shifts. The workers were given an incentive by providing differential wage rates such that those who would produce standard units or more would be given 10% extra wages over the standard output. Due to dispute between power companies and government, the manager had to depend upon the gensets, which increased the cost of production but helped to achieve the target in time.

- (a) In your opinion, what is lacking and what does the management achieve?
- (b) By quoting the lines, identify the technique of management being followed here.
- (c) Identify the values emphasised by management in the above-mentioned case.

Ans. (a) Management is lacking **efficiency** due to high cost of production whereas **effectiveness** is achieved by meeting the target in time.

- (b) The technique adopted here is 'differential wage rate system'.

Quoted Lines: '10% extra wages over the standard output'.

Differential Wage Rate System: It is a technique of wage payment to promote the work of efficient workers and motivate the inefficient workers to improve their output.

- (c) **Values emphasised:** (any two)

- Optimum utilisation of scarce resources.
- Sincerity.
- Responsible towards achieving the target.

- 9. (Case Problem based on Unit):** Unique Electronics Limited is engaged in manufacturing electronic gadgets. To tap the opportunity, the company planned to manufacture LED TVs with Android phone features but the company has been facing a lot of problems such as chaos between production department and sales department. The general manager is unable to integrate the efforts made by various departments. Sales department blames production department for delayed production. Production department, on the other hand, blames sales department for poor sales.

- (a) Identify the missing force in the above case and list one of its characteristics.

- (b) Which benefit has the company tried to achieve by scanning the business environment?
(c) List any two values which can be cultivated among the employees by using the force identified in (a) above.

Ans. (a) **Missing Force:** Coordination.

Coordination: (explain briefly)

Characteristics of Coordination

- It integrates group efforts.
- It ensures unity of action.

- (b) The company has tried to achieve the first mover advantage.

First Mover Advantage: (Explain briefly)

- (c) **Values Needed to be Cultivated:**

- **Cooperation:** By integrating all group efforts.
- **Unity:** By ensuring that all activities aim at accomplishments of organisational goals.

- 10. (Case Problem based on Unit):** To save electricity, the government decided to encourage the general public to use LED lights. Seeing the opportunity, the directors of Moonlight Electricals Limited decided to manufacture LED bulbs to boost its profits. The management of the company has asked Mr. Simon, the production manager, to work for long hours to meet the expected growing demand of bulbs in the market. He demanded extra salary for overtime but the company ignored his request. As a result, he could not contribute much to the company.

(a) Name and explain the objective which the management has focused to achieve.

(b) Name and explain the component of business environment related to the above situation.

(c) Which principle of Henri Fayol is violated in the above case? Explain.

(d) Which values have been ignored by violating the above principle?

Ans. (a) **Organisational Objective:** (Explain briefly)

(b) **Political Environment:** (Explain briefly)

(c) **Discipline:** (Explain briefly)

(d) **Values Ignored:** (Any two)

- Respect for employees.
- Responsibility and sincerity of the employee.
- Initiative.
- Motivation.
- Cooperation.

- 11. (Case Problem based on Unit):** Forbes & Company Limited has been in existence for the past twenty years. To prove as a leader in the market, it has always changed itself and its goals according to the needs of the environment, due to which it has earned good reputation and huge profits over the decades. The employees have been demanding for hike in their wages and salaries but the company does not pay any heed to their demands. The employees got agitated and declared strike in the company due to which the company's production was badly affected.

(a) By quoting the lines, identify the characteristic of management in the above case.

(b) Identify and explain the scientific principle of management being violated in the above case.

(c) State values overlooked/ignored by the management.

Ans. (a) **Management is Dynamic:** (Explain briefly)

(b) **Harmony not Discord:** (Explain briefly)

(c) **Values Overlooked:** (Any two)

- Mutual understanding, sharing, compassion.
- Good behaviour in human interaction.
- Empathy.
- Peace and stability.

12. (Case Problem based on Unit): Veronica completed her Masters in Business Economics (MBE) from University of Delhi, whereas Monica completed her Masters in Human Resources. They were appointed by IM Limited through campus recruitment on the basis of their qualifications, as well as physical, mental and intellectual capabilities as 'Financial Analyst' and 'Manager (Human Resources)', respectively. The company promised to give promotion after every three months on the basis of performance, which it did not keep.

(a) At which level of the management have both the employees been appointed?

(b) Name and explain the scientific principle of management followed while selecting the employees.

(c) Name and explain the principle of management violated on the policy of promotion.

(d) State the values that the company has ignored at the time of promotion.

Ans. (a) Both the employees have been appointed at the middle level of management.

(b) **Development of Each and Every Person to the Greatest Efficiency:** (Explain briefly)

(c) **Discipline:** (Explain briefly)

(d) **Values Ignored:**

- Respect for professional ethics.
- Respect for employees' morale.

13. (Case Problem based on Unit): David, an employee in Bindal Steels Ltd., was instructed by Mr. Robert (Production Manager) to increase production of steel products due to excess stock of steel. On the other hand, Mr. John (Sales Manager) directed him not to increase the steel production, as there was low demand for steel in the international market due to restrictions on exports of steel products by the government in Imports and Exports (Control) Act. David got confused regarding whose order to follow and hence was unable to work in a proper manner. Due to overlapping of orders and instructions, David was unable to satisfy both the bosses, which led to conflicts in the organisation.

(a) Name and explain the principle not being followed.

(b) State two advantages of following this principle.

(c) Which component of business environment has affected the exports of the company?

(d) Name the values that can be gained by following the above principle.

Ans. (a) **Unity of Command:** (Explain briefly)

(b) **Advantages of Following the Principle**

- Prevent overlapping of activities.
- Promote coordination.

(c) **Legal Environment:** (Explain briefly)

(d) **Values Gained:**

- Harmony.
- Maintain understanding between supervisors and employees.
- Effectiveness.

14. Metlapp Networks and Technologies Limited is a leader in technology innovation in the United States, creating products and solutions for connecting the world. It has a large research and development team which invented the first smart watch, named as W-7. The watch, besides showing the time, also monitors a few health parameters like heart beat, blood pressure, etc.

While in search of markets abroad, the company found that in India, the reform process was underway with the aim of accelerating the pace of economic growth. The company decided to take advantage of simplified export procedure and removal of quantitative as well as tariff restrictions in India.

It set up its office in Jamnagar with a view to capture the Indian market. In a short span of time, the company emerged as a market leader. Success of the company attracted many other players to enter the market. Competition resulted in reduction in prices, thereby benefiting the customers.

(a) In the above paragraph, two major concepts related to government policy have been discussed. Identify and explain these concepts.

(b) Also, explain briefly any three impacts of these concepts on Indian business and industry. (Delhi 2017)

Ans. (a) **Two major concepts:**

1. Globalisation: (Explain briefly)
2. Liberalisation: (Explain briefly)

(b) **Impact of Economic Policy:**

1. Increasing Competition: (Explain briefly)
2. More Demanding Customers: (Explain briefly)
3. Rapidly changing environment: (Explain briefly)

15. (Case problem based on Unit): Naman and Govind, after finishing their graduation under vocational stream, decided to start their own travel agency to facilitate the booking of rail tickets and air tickets on commission basis. They also thought of providing tickets within ten minutes through the use of the Internet.

They discussed it with their professor Mr Mehta, who liked the idea and suggested them to first analyse the business environment, consisting of investors, competitors and other social and political factors, etc. that may affect their business, directly or indirectly. He further told them about the technological advancements and shifts in consumer preferences that were taking place and asked them to be aware of the environmental trends and changes which may hinder their business performance. He told them to make plans, keeping in mind the threat posed by competitors, so that they can deal with the situation effectively. The alignment of business operations with the business environment results in better performance.

- (a) Identify and state the components of business environment highlighted in the paragraph above.
- (b) State any two features of business environment as discussed by Professor Mehta with Naman and Govind.
- (c) Also, state two points that prove the importance of business environment as stated by Professor Mehta in the above situation.

(CBSE Sample Paper 2016–17)

Ans. (a) Technological environment: (Explain briefly)

Quoted lines: Technological improvements.

Or

Social environment: (Explain briefly)

Quoted lines: Shift in consumer preferences.

(b) Features of business environment:

(i) **Specific & General Forces:** (Explain briefly)

Quoted lines: Consists of investors, competitors and other forces like social, political, etc.

(ii) **Dynamic nature:** (Explain briefly)

Quoted lines: Aware of the environmental trends and changes.

(c) Importance of business environment: (Any two)

(i) **Identify threats and early warning signals:** (Explain briefly)

Quoted lines: First analyse the business environment that may affect their business directly or indirectly.

(ii) **Planning and policy formulation:** (Explain briefly)

Quoted lines: Making plans keeping in mind the threat.....

(iii) **Helps in Tapping Resources:**

Quoted lines: Through the use of Internet.....

(iv) **Helps in coping with rapid changes:** (Explain briefly)

Quoted lines: Deal with the situation effectively....

16. (Case problem based on Unit): Nutan Tiffin Box service was started in Mumbai by Mumbai Dabbawalas. The Dabbawalas, who are the soul of entire Mumbai, aim to provide prompt and efficient services by providing tasty home-made tiffin to all office goers at right time and place. The service is uninterrupted even on the days of bad weather, political unrest and social disturbances. Recently, they have started online booking system through their website 'mydabbawala.com'.

Owing to their tremendous popularity amongst the happy and satisfied customers and members, the Dabbawalas were invited as guest lecturers by top business schools. The Dabbawalas operate in a group of 25–30 people along with a group leader. Each group teams up with other groups in order to deliver the tiffin on time. They are not transferred on frequent basis as they have to remember the addresses of their customers. They follow certain rules while doing trade, 'No Alcohol' during working hours; No leave without permission; Wearing of white cap & carrying ID cards during business hours.

Recently, on the suggestion of a few self-motivated fellow men, the Dabbawalas thought out and executed a plan of providing food left in tiffins by customers to slum children. They have instructed their customers to place red sticker if food is left in the tiffin, to be fed to poor children later.

- (a) State any one principle of management given by Fayol and one characteristic of management mentioned in the above case.
- (b) Give any two values which the Dabbawalas want to communicate to the society.

(CBSE Sample Paper 2016)

Ans. (a) **Principle of management mentioned in the case:** (any one with brief explanation)

- | | |
|-------------------------|----------------------|
| (1) Stability of Tenure | (2) Initiative |
| (3) Discipline | (4) Esprit de Corps |
| (5) Unity of Direction | (6) Unity of Command |

Characteristic of management mentioned in the case: (any one with brief explanation)

- (1) Management is goal oriented.
- (2) Management is dynamic.
- (3) Management is intangible.
- (4) Management is multidimensional.
- (5) Management is a group activity.

17. (Case problem based on Unit): 'Aapka Vidyalaya' believes in holistic development of students and encourages team building through a mix of curricular, co-curricular and sports activities. On its founder's day, a stage performance had been arranged. A committee of ten prefects was constituted to plan different aspects of the function. They all decided to use recycled paper for decoration. There was a spirit of unity and harmony and all members supported each other. With mutual trust and belongingness, the programme was systematically planned and executed. Kartik, one of the prefects, realised that unknowingly the group had applied one of the principles of management while planning and executing the programme. He was so inspired by the success of the function that he asked his father to apply the same principle in his business. His father replied that he was already using this principle.

- (a) Identify the principle of management applied for the success of the programme.
- (b) State any two features of management highlighted in the above para.
- (c) Identify any two values which 'Aapka Vidyalaya' communicated to the society.

(Delhi 2015)

Ans. (a) **Principle of Management applied for the success:** (Any one)

- (i) Esprit de Corps

Quoted Lines: 'there was a spirit of unity and harmony'

- (ii) **Harmony Not Discord**

Quoted Words: 'Harmony, mutual trust and belongingness'

(b) **Features of Management highlighted in the case:** (Any one)

- (i) Management is Goal Oriented

Quoted Lines: 'the programme was systematically planned and executed'.

- (ii) Management is a Group Activity

Quoted Lines: 'There was a spirit of unity and all members supported each other'.

(iii) Management is All Pervasive

Quoted Lines: 'father replied that he was already using the same principle in his business'.

(c) **Values Involved:**

- Team spirit/team work
- Harmony/sincerity
- Sense of accomplishment and mutual cooperation
- Sharing
- Team building
- Holistic development of children

18. (Case problem based on Unit): An environmental conscious multinational company, AXN Limited, follows certain well-defined business principles that result in minimising the employee turnover. Following are some of the important environmental factors pursued by the AXN Limited.

- (1) Honour the law of every country in which it operates.
- (2) Respect the cultures and customs of all the nations.
- (3) Provide clean and safe products to enhance the quality of life throughout the world.
- (4) Develop a culture in the company that enhances individual creativity and team work while honouring mutual trust and respect between the management and the labour.

From the above:

- (i) Identify and state one general principle of management and one dimension of business environment.
- (ii) Also identify any two values which the above guiding principles and environmental factors are conveying to the society.

(Delhi/Outside Delhi Compartment 2015)

Ans. (i) Principle of management applied in the case: (any one with brief explanation)

- (a) Initiative
- (b) Esprit de corps
- (c) Stability of tenure

Dimension of business environment: (any one with brief explanation)

- (a) Social environment
- (b) Technological environment

(ii) Values being conveyed:

- Respect for law
- Health and hygiene
- Rising standard of living and secularism

19. The court passed an order that

- (i) all schools must have water purifier for the school children.
- (ii) the society in general is more concerned about the quality of life.
- (iii) innovative techniques are being developed to manufacture water purifier at competitive rates.

- (iv) incomes are rising and children at home are also drinking purified water.
 - (v) 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. (Delhi 2013)

- Ans.** (i) **Legal:** *Quoted line:* Court passed an order...
 (ii) **Social:** *Quoted line:* Society in general...
 (iii) **Technological:** *Quoted line:* Innovative techniques...
 (iv) **Economic:** *Quoted line:* Incomes are rising...
 (v) **Political:** *Quoted line:* The Government...

- 20.** The court passed an order to ban polythene bags as
- (i) these bags are creating many environmental problems which affect the life of people in general.
 - (ii) the society in general is more concerned about the quality of life.
 - (iii) the government decided to give subsidy to jute industry to promote this business.
 - (iv) innovative techniques are being developed to manufacture jute bags at low rates.
 - (v) incomes are rising and people can afford to buy these bags.
- Identify the different dimensions of Business Environment by quoting the lines from the above particulars. (Outside Delhi 2013)

- Ans.** (i) **Legal:** *Quoted line:* Court passed an order...
 (ii) **Social:** *Quoted line:* The bags are...
 (iii) **Political:** *Quoted line:* The Government decided...
 (iv) **Technological:** *Quoted line:* Innovative techniques....
 (v) **Economic:** *Quoted line:* Incomes are...



N.C.E.R.T. QUESTIONS



VERY SHORT ANSWER TYPE QUESTIONS

(1 MARK)

1. What is meant by business environment?
2. State how business environment and business performance related?
3. Give an example to show that a business firm operates within numerous inter related factors constituting the business environment.

[**Hint:** *Example highlighting the inter relatedness of dimensions of business environment*].

4. Krishna Furnishers Mart started its operations in the year 1954 and emerged as the market leader in the industry because of their original designs and efficiency in operations. They had a steady demand for their products but over the years, they found their market share declining because of new entrants in the field. The firm decided to review their operations and decided that in order to meet the competition, they need to study and analyze the market trends and then design and develop their products accordingly. List any two impacts of changes in business environment on Krishna Furnishers Mart's operations.

[**Hint:** *(any one) Increasing competition, Changing technological environment and Necessity for change*]

5. Name any two specific forces of business environment affecting business?

SHORT ANSWER TYPE QUESTIONS

(3–4 MARKS)

1. Is it important for business enterprises to understand their environment? Comment.
2. Explain the following terms:
 - (a) Liberalization
 - (b) Liberalization
 - (c) Globalization
3. Briefly discuss the impact of Government policy changes on business and industry.
4. National Digital Library of India (NDL India) is a pilot project initiated by the HRD ministry. It works towards developing a framework of virtual repository of learning resources with a single-window search facility. It provides support to all academic levels including researchers, life-long learners and differently-abled learners free of cost. State the dimensions of business environment highlighted above.

[Hint: Technological (digital library), political (government initiative), social (quality of education and growth)]
5. State the impact of demonetization on interest rates, private wealth and real estate.

LONG ANSWER TYPE QUESTIONS

(5–6 MARKS)

1. How would you characterize business environment? Explain, with examples, the difference between general and specific environment.
2. How would you argue that the success of a business enterprise is significantly influenced by its environment?
3. Explain, with examples, the various dimensions of business environment.
4. The government of India announced Demonetization of ₹ 500 and Rs. 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. This 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.

[Hint: Political (announcement of demonetisation), Legal (legal tender), Technological and economic (increase in government revenue)]
5. What economic changes were initiated by the Government under the Industrial Policy, 1991? What impact have these changes made on business and industry?
6. What are the essential features of:
 - (a) Liberalization
 - (b) Privatization and
 - (c) Globalization?
7. What economic changes were initiated by the Government under the Industrial Policy, 1991? What impact have these changes made on business and industry?

EXERCISE

VERY SHORT ANSWER TYPE QUESTIONS

(1 MARK)

1. Give one of the most important objectives of Indian development programmes at the time of independence.
2. Name any two features of business environment.
3. State two benefits of understanding business environment.
4. Why is business environment said to be dynamic?
5. Business environment includes both 'specific' and 'general' forces. List any two specific forces.
6. Name any two challenges which the Indian corporate sector is facing.
7. What is included in 'Technological Environment'?
8. Which environment describes the characteristics of a society where a business firm operates?
9. State any two impacts of change of government policy on business and industry.
10. Which policy of government has moved India towards globalisation?

SHORT ANSWER TYPE QUESTIONS

(3-4 MARKS)

1. Explain any four features of business environment.
2. Why is it necessary to understand business environment?
3. Explain the impact of change of government policy on business and industry.
4. Explain any three key components of general environment.
5. "Business environment helps in tapping useful resources." Comment.
6. Explain the key components of general environment.
7. Explain 'increasing competition' and 'more demanding customer' as impact of the government policy changes on business and industry.
8. Explain by giving any four points, why in the present competitive market, it is essential for a business to remain alert and aware of its environment.
9. "Management of every enterprise can be benefitted from being aware of different dimensions of 'Business Environment'. Explain any four such dimensions.
10. Explain 'Environmental Scanning'. How a business enterprise benefits from such scanning?
11. Explain the terms 'Specific Forces' and 'General Forces'.
12. Explain the terms 'First Mover Advantage' with one latest example in business and industry.
13. Give an example of any company which has identified threat in the business environment and how was it faced?
14. How can a business organisation use its resources in the best possible way if it scans the business environment constantly?
15. What would be the effects on the business organisation if they do not cope up with the changes occurring in the environment?
16. Today, all sizes and types of enterprises are facing increasingly dynamic environment. To cope with this, what should a manager do?
17. "Liberalisation has added globalisation, foreign investment and brought in world class technology in India." Comment.
18. "Liberalisation has been an eye opener to the public sector." Comment.

LONG ANSWER TYPE QUESTIONS

(4–5 MARKS)

1. Give any five points why is it important for a business enterprise to understand its environment.
2. Give an example with its effect relating to each of the following external factors of business environment:
 - (a) Government policies
 - (b) Technological development
 - (c) Political instability
 - (d) Fashion and tastes of the customers
 - (e) Competition
3. Identify the component of business environment in the following examples:
 - (a) Replacement of LCDs with LEDs.
 - (b) Government allowed 100% FDI in retailing.
 - (c) Many car companies launched small cars at Auto Expo.
 - (d) Entry of Global Giants to set up their business in India.
 - (e) Government abolished certain restrictions, removed quota on imports to give more freedom to entrepreneurs.

[Hint: (a) *Technological* (b) *Economic* (c) *Technological* (d) *Political* (e) *Legal*]
4. When did Economic Policy come into existence? What was the purpose for making and implementing such policy? Name the three steps which the Government initiated on that event.
5. Explain the objectives of Developmental Plans (i.e. Five year plans).
6. Explain the following features of Economic Policy, 1991:
 - (a) Delicensing
 - (b) Role of public sector
 - (c) Small-scale industries
 - (d) Disinvestment
 - (e) Setting up FIPB
7. Explain the following major crisis India faced during 1991:
 - (a) Fiscal deficit
 - (b) Internal debt
 - (c) Agricultural growth
 - (d) Negative Balance of payments
 - (e) Inflation rate
 - (f) Depleting Foreign exchange reserves
8. Explain the impact of Economic Policy, 1991 on the following:
 - (a) Competition
 - (b) Customers
 - (c) Technological environment
 - (d) Human resource
 - (e) Market orientation

PREVIOUS YEAR QUESTIONS

VERY SHORT ANSWER TYPE QUESTIONS

(1 MARK)

1. What is meant by 'Privatisation'? (Outside Delhi 2015)
2. What is included in 'Political Environment' of business? State. (Delhi 2014)
3. What is included in 'Legal Environment' of Business? State. (Outside Delhi 2014)
4. Why is business environment called dynamic? State. (Comptt. 2014)
5. Why is it said that business environment is uncertain? (Comptt. 2014)
6. "The understanding of Business Environment enables the firm to identify opportunities." What is meant by 'Opportunities' here? (Outside Delhi 2011)

SHORT ANSWER TYPE QUESTIONS

(3–4 MARKS)

1. Explain any four characteristics of business environment. (Compartment Delhi 2016)
2. Explain the impact of government policy changes on business and industry. (Any four)
(Compartment Delhi 2016)
3. Explain how does the understanding of business environment help the management in the following:
(a) Tapping useful resources; and
(b) Coping with rapid changes. (Delhi Compartment 2015)
4. How does the understanding of business environment help the management in the following?
(a) Identification of threats and early warning signals
(b) Improving performance. (Outside Delhi 2015)
5. What is meant by 'business environment'? State any three points of its importance.
(Delhi 2015)
6. Why is the understanding of business-environment important for managers? Explain with the help of any four points. (Delhi 2015)
7. Explain the concept of 'Business Environment' and any three features of it.
(Outside Delhi 2014)
8. Explain any four points of importance of business environment. (Delhi Comptt. 2014)
9. Explain any four characteristics of business environment. (Delhi Comptt. 2014)
10. Explain any four points of impact of government policy changes on business and industry.
(Delhi Comptt. 2014)
11. Explain any four features of business environment. (Outside Delhi Comptt. 2014)
12. 'Understanding of environment by business managers enables them not only to identify and evaluate, but also to react to the forces external to their firms'. In the light of the statement, explain any four points of importance of business environment.
(Outside Delhi Comptt. 2014)

LONG ANSWER TYPE QUESTIONS

(5–6 MARKS)

1. Explain any five points of impact of government policy changes on business and industry.
(Compartment Delhi 2017)
2. State any five points of impact of liberalisation on business and industry.
(Compartment Outside Delhi 2017)
3. State any five features of Business Environment.
(Compartment Delhi Set I- 2017)
4. Explain any five points of importance of Business Environment.
(Compartment Delhi Set II- 2017)
5. "A good understanding of environment by business managers enables them not only to identify and evaluate but also to react to the forces external to their firm."
In the light of the above statement explain any four points of importance of understanding business environment by a manager.
(CBSE Sample Paper 2016)

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