



Unit - 3 : BUSINESS ENVIRONMENT

Summary of the Chapter

Meaning of Business Environment

The sum total of individuals, institutions and other forces that are outside the control of a business enterprise but that may affect its performance.

Features of Business Environment

1. Totality of external forces
2. Specific and general forces
3. Inter-relatedness
4. Dynamic Nature
5. Uncertainty
6. Complexity
7. Relativity

Importance of business environment

- (1) It enables the firm to **identify opportunities** and **getting the first mover advantage**.
- (2) It helps the firm to **identify threats** and **early warning signals**.
- (3) It helps in **tapping useful resources**.
- (4) It helps in **coping with rapid changes**.
- (5) It helps in **assisting in planning and policy formulation**
- (6) It helps in **improving performance**.

Elements or Dimensions of Business Environment

1. Economic Environment

Interest rates, inflation rates, change in income of the people, stock market and the value of rupee are some of the economic factors that can affect management practices in a business enterprises

2. Social Environment

- The social environment of business includes the social forces like customs and traditions, values, social trends, society's expectations from business etc. Traditions define social practices that have lasted for centuries.
- For Example:- Diwali, Id, Christmas and Guru Parv in India.

3. Technological Environment

Technological environment includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business.



For Example:- recent technological, advances in computers and electronics have modified the ways in which companies advertise their product

4. Political Environment

- Political environment includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business.

5. Legal Environment

Legal environment includes various legislations passed by the government administrative orders issued by government authorities, court judgments as well as the decisions rendered by the various commissions and agencies at every level of the government centre, state or local.

Impact of Government Policy changes on Business and Industries

- 1) Increasing **competition**
- 2) More **demanding customers**
- 3) Rapidly changing **technological environment**
- 4) Necessity for **change**
- 5) Need for developing **human resource**
- 6) Market orientation
- 7) **Loss of budgetary support** to the public sector

Liberalisation: Means freeing the business firms and industry from all unnecessary control and restrictions.

Privatisation: Means giving greater role to the private sector in the nation building process and reducing the role of public sector

Globalisation: Means integration of our economy with world economy

Very Short Answer Questions (1 mark)

Q1. Which environment prohibits the advertisement of alcoholic beverages?

Ans. Legal Environment

Q2. Banking sector reforms have led to easier credit terms and better services. This is an example of a key component of the “Business Environment “name this component?

Ans: Economic Environment

Q3. ‘Demand for reservation in jobs for minorities refers to an example of key component of general environment of business. Name this component.

Ans: Social Environment

Q4. “The understanding of business environment enables the firm to identify opportunities”. What is meant by opportunities here?



BUSINESS STUDIES

Ans: Opportunities here refer to the favorable condition in the organization environment.

Q5. In the year 2006, Centre for Science and Environment (CSE) claimed to have found pesticides in Pepsi Co and Coco Cola soft drink 50 times more than permissible health limit- These companies sales being adversely affected in that year”. This is the effect of which environment?

Ans. This is the effect of Legal environment

Q6. Out of liberalization, privatization and globalization, which one is associated with “Abolition of licensing requirement in most of the industries”?

Ans. Liberalization

Short Answer Questions (3-4 marks)

Q1. What do you understand by legal environment? Give two examples which protect ‘consumer’s interests’.

Ans. Legal environment consists of rules and regulations, framed by the Parliament, under which business must operate. To exist and grow, business is required to follow all the rules and regulations that constitute this environment.

Two examples protecting ‘consumer’s interests’ are:

- (i) Advertisement of alcoholic beverages is prohibited.
- (ii) Packets of cigarettes should mention the statutory warning ‘Cigarette smoking is injurious to health’.

Q2. With change in the consumption habit of people, Neelesh, who was running a sweet shop shifted to chocolate business. On the eve of diwali he offered chocolate in attractive packages at reasonable price. He anticipated huge demand and created a website chocolove.com for taking order online. He got lot of orders online and earned huge profit by selling chocolates. Identify and explain the dimensions of business environment discussed in the above case.

- Ans
1. Social environment: It includes social forces like custom and tradition, values, social trends and society’s expectation from business.
 2. Technological environment: It includes forces relating to scientific improvement and innovation which provide new ways of producing goods & services and new methods and techniques of operating a business.

Q3. State the difference between general and specific environment with examples.

Ans: Business environment includes both specific forces (investors, customers, competitors and suppliers) and general forces (economic, social, political, legal and technological conditions). Specific forces affect an individual firm directly and immediately in its day-to-day working while general forces have impact on all business firm and thus may affect an individual firm only indirectly.



BUSINESS STUDIES

Q4. The understanding of business environment enables the firm to identify opportunities and threats. What do opportunities and threats means here?

Ans: Opportunities refer to the positive external trends /changes that will help to improve a firm's performance. On the other hand threats refer to the external environment trends / changes that will hinder a firm performance.

Q5. Explain dynamic nature and uncertainty as features of business environment.

Ans: Dynamic nature: Business environment is dynamic as it keeps on changing in term of technological improvement, change in fashion and taste, entry of new competitors in the market, etc.

Uncertainty: Business environment is uncertain as it is very difficult to predict future happenings, especially when environment changes are taking place too frequently e.g. in case of IT and fashion industries.

Q6. Lately many companies have planned for significant investment in organised retailing in India. Several factors have prompted their decision in this regard- customer income is rising. People have developed a taste for better quality products even though they may have to pay more. The government permitted cent percent foreign direct investment in some sectors of retailing.

Identify the change in business environment under different dimension quoting the line from the above para.

Ans: Dimensions of business environment:

- (1) Economic environment: customer income is rising.
- (2) Social environment: people have developed a taste for better quality product even though they may have to pay more.
- (3) Political environment: the government permitted cent per cent foreign direct investment in some sector of retailing.

Q7. Mr. Ajay after completing MBA from USA comes to India to start a new business under the banner Ecom creations Ltd. He launches a new product in e-learning for senior secondary school students in commerce stream, which already has an established market in UK and USA but not in India. His business starts flourishing in India. Now more Indian companies entered into the market with other subject also.

Identify and quote the line from above para which highlight the significance of understanding business environment.

Ans: a) Comes to India to start a new business..... launches a new product in e-learning for senior secondary school student in commerce stream.

- (1) It helps in assisting in planning and policy formulation.
 - (2) It helps the firm to identify opportunities and get the first mover advantage.
- (a) His business started flourishing in India.



BUSINESS STUDIES

- (3) It helps in improving performance.
- (b) Now more Indian companies entered into the market with different subject also.
- (4) It helps the firm to identify threats and early warning signals.
- Q8. Explain “increasing competition” and “more demanding customers” as impact of government policy changes on business and industry?
- Ans. **Increasing competition:** Government policies have enabled co-existence of government sector companies with private companies and compete fairly, leading to increasing competition.
- More demanding customers:** Government policies leading to economic liberalisation allow consumers to become well-informed, increase their purchasing power (through rising incomes) and change their lifestyle, which makes them more demanding about quality and value-driven products/services.

Long Answer Questions (5-6marks)

- Q1. Ultra paint co. which is manufacturing paints had been enjoying a prominent market position as it is manufacturing best quality paints made timely payment of taxes to government. It assembled various inputs like finance, machines, raw materials, etc. from its environment but since last year it has been dumping its untreated poisonous waste on the river bank which has created many health problems for the people. As a result, the court passed an order to seal the manufacturing unit of the company.
- (a) State the importance of business environment highlighted quoting the line from the above case.
- (b) Identify any two dimension of business environment mentioned in above case by quoting line from it.
- (c) State any two values which have been overlooked by the company?
- Ans. (a) business environment helps in tapping useful resources.
‘it assembled various inputs like finance, machines, etc. from its environment’.
- (b) (1) Social environment
‘....it has been dumping its untreated poisonous waste on the river bank which created many health problems for the people’.
- (2) Legal environment
‘....the court passed an order to seal the manufacturing unit of the company’.
- (c) Values overlooked:
- * Environment protection
 - * Concern for human life



BUSINESS STUDIES

- * Respect for law and order
- * Social responsibility

Q 2. Karodimal Ltd. manufactures fashionable and designer clothes. Recently it finds that the demand for its product been declining. After market research it was discovered that fashion and tastes of the consumers is changing a pace. Consumers demand is increasing. New competitors have entered the market with new design. It is difficult for the company to predict future happening. Also it is difficult to know the extent of the relative impact of the social, economic, political, technological or legal factors on decrease in demand of its product in the market. A meeting was held in which managers from different functional level heading production, marketing, financial etc. for example, chief operating officer, chief finance officer, vice president (marketing) were present to discuss how to deal with the situation. After a long discussion, it was decided that they would study and analyze the market first to identify customers taste and fashion and then manufacture garments accordingly. It was also decided to increase expenditure on advertising, after sale service, etc. Identify any two features a business environment by quoting the lines from the above case.

- (a) At which level of management the meeting of managers in Karodimal Ltd. was held.
- (b) Identify any two impacts of government policy changes on business, quoting lines from the above case.
- (c) State the importance of understanding of environment by business managers in the light of the above para.

Ans (a) Features of business environment :-

- (1) Dynamic nature – Fashion and taste of the consumer is changing at a fast pace.
 - (2) Uncertainty- It is very difficult for the company to predict future happening.
 - (3) Complexity – It is difficult to know the extent of the relative impact of the social, economic, political, technological or legal factor on decreasing in demand of its products in the market.
- (b) Top level management
- (c) Impact of government policy change in business
- (1) Increasing competition – New competitors have entered the market with new design.
 - (2) More demanding customer- Customer demand is increasing.
 - (3) Market orientation – It was decided that they would study and analyse the market first to identify customer taste and fashion and then manufacture garments accordingly. It was also decided to increase expenditure on advertising after sale service etc.
- (d) Business environment helps the manger in coping with rapid changes.



BUSINESS STUDIES

Q4. 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 light of the statement, explain by giving any five points why in the present day competitive market, it is essential for a business enterprise to remain alert and aware of its environment.

Ans. Importance of business environment:

1. Identify opportunities and get first mover advantage: Early identification of opportunities help the firm to be the first to exploit them instead of losing them to competitors.
2. Identify threats and early warning signals: Environmental awareness can help managers to identify various threats on time and serve as an early warning signal.
3. Tap useful resources: A business firm assembles various resources called inputs like finance, machines, raw materials, power and water, labour, etc. from its environment.
4. Assist in planning and policy formulation: Since business environment provides both opportunities and threats for the firm, its understanding and analysis can be the basis for planning and policy formulation.
5. Helps in coping with rapid changes: Managers must understand and examine the environment and develop suitable courses of action to cope with rapid change in business environment.

Q5. The court passed an order that all school must have water purifier for the school children as society in general is more concerned about quality of life.

Innovative techniques are being developed to manufacture water purifier at competitive rates.

Incomes are rising and children at home are also drinking purified water.

The government is also showing positive attitude towards the water purifier business. Identify the different dimensions of business environment by quoting lines from the above details.

- Ans.**
- (1) legal environment: The court passed an order that all schools must have water purifier for the school children.
 - (2) Social environment: Society in general is more concerned about quality of life.
 - (3) Technological environment: Innovative techniques are being developed to manufacture water purifier at competitive rate.
 - (4) Economic environment: Income is rising and children at home are also drinking purified water.
 - (5) Political environment: The government is also showing positives attitude towards the water purifier.



BUSINESS STUDIES

Q6. The court passed an order to ban polythene bags as

- (i) The bags are creating many environment problems which affect the life of people in general.
- (ii) Society in general is more concerned about quality of life.

The government decided to give subsidy to jute industry to promote this business. Innovative techniques are being developed to manufacture jute bags at low rates. 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.

- Ans:
- (1) Legal environment: The court passed an order to ban polythene bags.
 - (2) Social environment: The bags are creating many environmental problems which affect the life of people in general. Social in general is more concerned about quality of life.
 - (3) Political environment: The government decided to give subsidy to jute industry to promote this business.
 - (4) Technological environment: Innovative techniques are being developed to manufacture jute bags at low rates.
 - (5) Economic environment: Incomes are rising and people can afford to buy these bags.