INDIAN SCHOOL MUSCAT
Senior Section
Department of Commerce and Humanities

Class : 12

SOLVED SUPPORT MATERIAL

CHAPTER :3 : BUSINESS ENVIRONMENT

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BUSINESS STUDIES (054)

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Q.1 What do you understand by the term 'Business Environment'?

A.1 The term 'business environment' means the sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but that may affect its performance.

Thus, the economic, social, political, technological and other forces which operate outside a business enterprise are part of its environment.

So also, the individual consumers or competing enterprises as well as the governments, consumer groups, competitors, courts, media and other institutions working outside an enterprise constitute its environment.

Q.2 Describe the features/characteristics of 'Business Environment'.

A.2 The following are the features/characteristics of Business Environment-

1) **Totality of external forces:** Business environment is the sum total of all things external to business firms and, as such, is aggregative in nature.
2) **Specific and general forces:** Business environment includes both specific and general forces. Specific forces (such as investors, customers, competitors and suppliers) affect individual enterprises directly and immediately in their day-to-day working. General forces (such as social, political, legal and technological conditions) have impact on all business enterprises and thus may affect an individual firm only indirectly.
3) **Inter-relatedness:** Different elements or parts of business environment are closely inter-related.
4) **Dynamic nature:** Business environment is dynamic in that it keeps on 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 industries.
6) **Complexity: The** environment is a complex phenomenon that is relatively easier to understand in parts but difficult to grasp in its totality.
7) **Relativity:** Business environment is a relative concept since it differs from country to country and even region to region.

Q.3 "The study of Business Environment is very important for all businesses'. Why? OR
How would you argue that the success of a business enterprise is significantly influenced by its environment?
The importance of studying 'Business Environment is as follows-

1) **It enables the firm to identify opportunities and getting the first mover advantage:** Opportunities refer to the positive external trends or changes that will help a firm to improve its performance. Environment provides numerous opportunities for business success. Early identification of opportunities helps an enterprise to be the first to exploit them instead of losing them to competitors.
2) **It helps the firm to identify threats and early warning signals:** Threats refer to the external environment trends and changes that will hinder a firm's performance. Environmental awareness can help managers to identify various threats on time and serve as an early warning signal.
3) **It helps in tapping useful resources:** Environment is a source of various resources/inputs for running a business like finance, machines, raw materials, power and water, labour, etc., from its environment including financiers, government and suppliers. the enterprise designs policies that allow it to get the resources that it needs so that it can convert those resources into outputs that the environment desires.
4) **It helps in coping with rapid changes:** All sizes and all types of enterprises are facing increasingly dynamic environment. In order to effectively cope with these significant changes, managers must understand and examine the environment and develop suitable courses of action.
5) **It helps in assisting in planning and policy formulation:** The environment's understanding and analysis can be the basis for deciding the future course of action (planning) or training guidelines for decision making (policy).
6) **It helps in improving performance:** The enterprises that continuously monitor their environment and adopt suitable business practices are the ones which not only improve their present performance but also continue to succeed in the market for a longer period.

Q4 What are the various dimensions of business environment?
A4 Dimensions of, or the factors constituting the business environment include economic, social, technological, political and legal conditions which are considered relevant for decision-making and improving the performance of an enterprise.
Q5 How would you characterise business environment? Explain, with examples, the difference between general and specific environment.

A5 Business environment includes both specific and general forces. Specific forces (such as investors, customers, competitors and suppliers) affect individual enterprises directly and immediately in their day-to-day working. General forces (such as social, political, legal and technological conditions) have impact on all business enterprises and thus may affect an individual firm only indirectly.

Q6 Explain, with examples, the various dimensions/elements of business environment. OR
Discuss in detail the various components of the following elements/dimensions of the business
A6 environment-
1) Economic environment 2) Social environment 3) Political environment.

The following are the various elements/dimensions of business environment-
1) **Economic environment-** The economic environment includes the following components-

- Existing structure of the economy in terms of relative role of private and public sectors.
- The rates of growth of GNP and per capita income at current and constant prices
- Rates of saving and investment
- Volume of imports and exports of different items

- Balance of payments and changes in foreign exchange reserves
- Agricultural and industrial production trends
- Expansion of transportation and communication facilities
- Money supply in the economy
- Public debt (internal and external)
- Planned outlay in private and public sectors

2) **Social Environment-** The social environment includes the following-
- Attitudes towards product innovations, lifestyles, occupational distribution and consumer preferences
- Concern with quality of life
- Life expectancy
- Expectations from the workforce
- Shifts in the presence of women in the workforce
- Birth and death rates
- Population shifts
- Educational system and literacy rates
- Consumption habits
- Composition of family

3) **Political Environment-** It includes the following components-
- The Constitution of the country
- Prevailing political system
- The degree of politicisation of business and economic issues
- Dominant ideologies and values of major political parties
- The nature and profile of political leadership and thinking of political personalities
- The level of political morality
- Political institutions like the government and allied agencies
- Political ideology and practices of the ruling party
- The extent and nature of government intervention in business
- The nature of relationship of our country with foreign countries

4) Legal Environment- An adequate knowledge of rules and regulations framed by the Government is a must for better business performance. Non-compliance of laws can land the business enterprise into legal problems. In India, a working knowledge of Companies Act 1956; Industries (Development and Regulations) Act 1951; Foreign Exchange Management Act and the Imports and Exports (Control) Act 1947; Factories Act, 1948; Trade Union Act; 1926; Workmen's Compensation Act, 1923; Industrial Disputes Act, 1947, Consumer Protection Act, 1986, Competition Act, 2002 etc. are a few acts meant to regulate the conduct of business in India.

5) 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 like DVD players and cd ROMs etc.

Q7 'The economic environment in India consists of various macro-level factors related to the means of production and distribution of wealth which have an impact on business and industry '. What are they?

A7 Business enterprises in India do realize the importance and impact of the economic environment on their working. The economic environment in India consists of the following factors-
a) Stage of economic development of the country.

(b) The economic structure in the form of mixed economy which recognizes the role of both public and private sectors.

(c) Economic policies of the Government, including industrial, monetary and fiscal policies.

(d) Economic planning, including five year plans, annual budgets, and so on.

(e) Economic indices, like national income, distribution of income, rate and growth of GNP, per capita income, disposal personal income, rate of savings and investments, value of exports and imports, balance of payments, and so on.

(f) Infrastructural factors, such as, financial institutions, banks, modes of transportation communication facilities, and so on.

Q8 Portray a clear picture of the Indian economy at the time of our independence.

OR

What was the Indian economy scenario at the time of independence?

A8 At the time of Independence, the Indian Economy scenario was as follows-

a. The Indian economy was mainly agricultural and rural in character;
b. About 70% of the working population was employed in agriculture;
c. About 85% of the population was living in the villages;
d. Production was carried out using irrational, low productivity technology;
e. Communicable diseases were widespread, mortality rates were high. There was no good public health system.

Q9 What were the steps taken by the Government of India to tackle the above mentioned problems ?

OR

What were the objectives of India's Development Plans?

A9 The main objectives of India's development plans were:

a) Initiate rapid economic growth to raise the standard of living, reduce unemployment and poverty;

b)Become self-reliant and set up a strong industrial base with emphasis on heavy and basic industries;

c)Reduce inequalities of income and wealth;

d) Adopt a socialist pattern of development — based on equality and prevent exploitation of man by man.

e) The government gave a lead role to the public sector for infrastructure industries.

f)The private sector was broadly given the responsibility of developing consumer goods industry.

Q10 Enumerate a few Major elements of the crisis situation in June 1991which led the Government of India to announce economic reform?

A10 Major elements of the crisis situation of June 1991 which led the Government of India to announce economic reform were as follows-

- A serious fiscal crisis in which the fiscal deficit reached the level of 6.6 per cent of GDP in 1990-91.
  Heavy internal debt which rose to about 50 per cent of GDP .
- Low GNP growth rate which fell to 1.4 per cent from the peak level of 10.5 per cent in 1988-89 (at 1980-81 prices).
- Low overall agricultural production, food grain production and industrial production showed negative growth rates of –2.8 per cent, –5.3 per cent and –0.1 per cent respectively.
- Soaring inflation rate based both on wholesale price index and consumer price index (for industrial workers) at 13-14 per cent.
- Shrinkage of foreign trade, imports (in $ terms) fell by 19.4 per cent and exports by 1.5 per cent.
- Depreciation of rupee by 26.7 per cent vis-à-vis US dollars.
- Fall of foreign exchange reserves to such a low level that they were barely adequate to meet the import requirements of a few weeks. Non-resident Indians (NRIs) were withdrawing their deposits at an alarmingly high rate.

- The confidence of the international financial institutions was badly shaken and in just over a year its creditworthiness rating fell from AAA to BB+ (put on credit watch).
- The country was on the verge of defaulting on international financial obligations and the situation warranted immediate policy action to save the situation. In May 1991, the Government had to lease 20 tones of gold out of its stock to the State Bank of India to enable it to sell the gold with repurchases option after six months. In addition, Reserve Bank of India was allowed to pledge 47 tons of gold to the Bank of England to raise a loan of $600 million.

Q11 What economic changes were initiated by the Government under the Industrial Policy, 1991? **OR**
"As a part of economic reforms, the Government of India announced a new industrial policy in July 1991''. Explain the broad features of this policy.

A11 The broad feature of New industrial Policy 1991, are as follows-

a) The Government reduced the number of industries under compulsory licensing to six.
(b) Many of the industries reserved for the public sector under the earlier policy, were dereserved. The role of the public sector was limited only to four industries of strategic importance.
(c) Disinvestment was carried out in case of many public sector industrial enterprises.
(d) 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.
(e) Automatic permission was now granted for technology agreements with foreign companies.
(f) Foreign Investment Promotion Board (FIPB) was set up to promote and channelise foreign investment in India.

Appropriate measures were taken to remove obstacles in the way of growth and expansion of industrial units of large industrial houses. Small-scale sector was assured all help and accorded due recognition.

Q12 What are the essential features of (a) Liberalisation, (b) Privatisation and (c) Globalisation?

A12 The new industrial policy1991 has sought to liberate industry from the shackles of the licensing system (liberalisation), drastically reduce the role of the public sector (privatisation) and encourage foreign private participation in India's industrial development (globalisation).

Liberalisation: The economic reforms that were introduced were aimed at liberalising the Indian business and industry from all unnecessary controls and restrictions. They signalled the end of the license-permit-quota raj. Liberalisation of the Indian industry has taken place with respect to:

(i) abolishing licensing requirement in most of the industries except a short list,
(ii) freedom in deciding the scale of business activities i.e., no restrictions on expansion or contraction of business activities,
(iii) removal of restrictions on the movement of goods and services,
(iv) freedom in fixing the prices of goods services,
(v) reduction in tax rates and lifting of unnecessary controls over the economy,
(vi) simplifying procedures for imports and experts, and
(vii) making it easier to attract foreign capital and technology to India.

Privatisation: The new set of economic reforms aimed at giving greater role to the private sector in the nation building process and a reduced role to the public sector.

To achieve this, the government redefined the role of the public sector in the New Industrial Policy of 1991, adopted the policy of planned disinvestments of the public sector and decided to refer the loss making and sick enterprises to the Board of Industrial and Financial Reconstruction.
(Q. what is meant by disinvestment of Public Sector?)

The term **disinvestments** used here means transfer in the public sector enterprises to the private sector. It results in dilution of stake of the Government in the public enterprise. If there is dilution of Government ownership beyond 51 percent, it would result in transfer of ownership and management of the enterprise to the private sector.

Globalisation: Globalisation means the integration of the various economies of the world leading towards the emergence of a cohesive global economy.

Till 1991, the Government of India had followed a policy of strictly regulating imports in value and volume terms. These regulations were with respect to (a) licensing of imports, (b) tariff restrictions and (c) quantitative restrictions.

The new economic reforms aimed at trade liberalisation were directed towards import liberalisation, export promotion through rationalisation of the tariff structure and reforms with respect to foreign exchange so that the country does not remain isolated from the rest of the world.

Globalisation involves an increased level of interaction and interdependence among the various nations of the global economy. Physical geographical gap or political boundaries no longer remain barriers for a business enterprise to serve a customer in a distant geographical market.

This has been made possible by the rapid advancement in technology and liberal trade policies by Governments. Through the policy of 1991, the government of India moved the country to this globalisation pattern.

A truly global economy implies a boundaryless world where there is:

(i) Free flow of goods and services across nations;

(ii) Free flow of capital across nations;

(iii) Free flow of information and technology;

(iv) Free movement of people across borders;

(v) A common acceptable mechanism for the settlement of disputes;

(vi) A global governance perspective.

Q13 Discuss the impact of Government Policy Changes on business and Industry?

The policy of liberalisation, privatisation and globalisation of the Government has made a significant impact on the working of enterprises in business and industry, as follows-

i) **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.

(ii) **More demanding customers:** Customers today have become more demanding because they are well-informed. Increased competition in the market gives the customers wider choice in purchasing better quality of goods and services.

(iii) **Repidly 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.

(iv) **Necessity for change:** In a regulated environment of pre-1991 era, the firms could have relatively stable policies and practices. After 1991, the market forces have become turbulent as a result of which the enterprises have to continuously modify their operations.

(v) **Need for developing human resource:** Indian enterprises have suffered for long with inadequately trained personnel. The new market conditions require people with higher competence and greater commitment. Hence the need for developing human resources.

(vi) **Market orientation:** Earlier firms used to produce first and go to the market for sale later. In other words, they had production oriented marketing operations. In a fast changing world, there is a shift to market orientation in as much as the firms have to study and analyse the market first and produce goods accordingly.90 Business Studies

(vii) **Loss of budgetary support to the public sector:** The central government's budgetary support for financing the public sector outlays has declined over the years. The public sector undertakings have realised that, in order to survive and grow, they will have to be more efficient and generate their own resources for the purpose.

On the whole, the impact of Government policy changes particularly in respect of liberalisation, privatisation and globalisation has been positive as the Indian business and industry. Indian enterprises have developed strategies and adopted business processes and procedures to meet the challenge of competition. They have become more customer-focused and adopted measures to improve customer relationship and satisfaction.

**************************Chapter -3*****************************