

CHAPTER - 3

BUSINESS ENVIRONMENT

Short Answer Type Questions

1. What do you understand by business environment?

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

2. Why it is important for business enterprises to understand their environment? Explain briefly.

Ans: It is important for business organisations to understand their environment because of the following reasons.

(i) It Enables the Firm to Identify Opportunities and Getting the First Mover Advantage

Environment provide numerous opportunities for business. Early identification of opportunities helps an enterprise to use it before instead of losing them to competitors.

(ii) It Helps the Firm to Identify Threats and Early Warning Signals Environmental awareness can help managers to identify various threats on time and serve as an early warning signals.

(iii) It Helps in Tapping Useful Resources Environment is a source of various resources for running a business. To engage in any type of activity, a business enterprise assembles various resources called inputs. This can be done better by understanding what the environment has to offer.

(iv) It Helps in Coping with Rapid Changes All types of enterprises 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.

(v) It Helps in Assisting in Planning and Policy Formulation Since environment is the source of opportunities and threats, its understanding and analysis becomes the base for various policies to be framed and strategies to be made.

(vi) 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.

Q3. Mention the various dimensions of business environment.

Ans:

(i) Economic Environment Interest rates, inflation rates, value of rupee and many more are the economic factors that can affect management practices in a business enterprise.

(ii) Social Environment The social environment of business includes the social forces like customs and traditions, values, social trends etc.

(iii) Technological Environment This 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.

(iv) Political Environment This includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business.

(v) Legal Environment This includes various legislations passed by government authorities and court judgements. It is important for the management of every enterprise to obey the law of land and for this, enough of knowledge of rules, and regulations framed by the government is a pre-requisite for better performance.

4. Briefly explain the following

- (a) Liberalisation
- (b) Privatisation
- (c) Globalisation

Ans: The three important features of New Economic Policy, 1991

- (a) **Liberalisation** Under the new economic policy of 1991, the economic reforms that were introduced aimed at liberalising the Indian business and industry from all unnecessary controls and restrictions. They signalled the end of the licence-permit quota raj.
- (b) **Privatisation** The new set of economic reforms that aim at giving greater role to the private sector in the nation building process and a reduced role to the public sector.
- (c) **Globalisation** Globalisation means the integration of the various economies of the world leading towards the emergence of a cohesive global economy. Till 1991, India had a policy which strictly regulated imports in value and volume terms. After 1991, the reforms aimed at import liberalisation.

5. Briefly discuss the impact of Government policy changes on business and industry.

Ans: Impact of Government policy changes on business and industry

- (i) **Increasing Competition** As a result of liberalisation, privatisation and globalisation number of players increased in all sectors and increased competition for everyone.
- (ii) **More Demanding Customers** Increased competition in the market gives the customer wider choices in purchasing better quality of goods and services, which makes them more demanding.
- (iii) **Rapidly Changing Technological Environment** New technologies help to improve machines, process products and services. The rapidly changing technological environment creates tough challenges before smaller firms.
- (iv) **Necessity for Change** After 1991, the market forces have become turbulent as a result of which the enterprises have to continuously modifying their operations.
- (v) **Need for Developing Human Resource** The new market conditions require people with higher competence and greater commitment. Hence, the need for developing human resources emerged.
- (vi) **Market Orientation** Earlier, production was taken up first and then selling was done. Now, due to increasing competition and more demanding customers firms have to study and analyse the market first and produce goods accordingly.
- (vii) **Loss of Budgetary Support to the Public Sector** Public sector have less of budgetary support from the Central Government. Now, they have to generate their own resources and be more efficient in order to survive and grow.

Long Answer Type Questions

1. How would you characterise business environment? Explain with examples, the difference between general and specific environment.

Ans: Features of business environment

(i) **Totality of External Forces** Business environment is aggregative in nature as it is the sum total of all things external to business firms.

(ii) **Inter-relatedness** Different elements of business environment are closely related to each other, e.g., increased awareness of health care have increased the demand for many health products.

(iii) **Dynamic Nature** The business environment is highly dynamic. It keeps on changing. Sometimes there is a change in technology, tastes and preference of consumer etc.

(iv) **Uncertainty** The environment cannot be predicted. It is highly uncertain and unpredictable.

(v) **Complexity** Since there are many elements of business. Environment and they are inter-related and dynamic in nature. Therefore, it becomes very difficult to understand them as a whole.

Difference between Specific and General Environment There are two types of forces operating in business environment specific and general. Specific forces affect the individual enterprises directly and immediately, e.g., customers, suppliers. General forces affect the firms and only indirectly e.g., social conditions or political conditions.

2. How would you argue that the success of a business enterprise is significantly influenced by its environment?

Ans: Importance of business environment

(i) **It Enables the firm to Identify Opportunities and Getting the First Mover Advantage**

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, e.g., Eureka Forbes introduced Aquaguard and took away the cream of demand.

(ii) **It Helps the Firm to Identify Threats and Early Warning Signals** Environment happens to be the source of many threats. Environmental awareness can help managers to identify various threats on time and serve as an early warning signals e.g., Lakme took serious steps to improve the quality and types of products as foreign multinational cosmetics companies started coming to India after 1991.

(iii) **It Helps in Tapping Useful Resources** Environment offers various resources for running a business in return the business enterprise supplies the environment with its outputs such as goods and services for customers, taxes for government. In order to arrange for the best possible resources, better understanding of the environment becomes important.

(iv) **It Helps in Coping with Rapid Changes** It is not the fact of change itself that is so important as the pace of change. There are many changes taking place in the environment and at a fast speed. In order to effectively cope with these changes, managers must understand and examine the environment and develop suitable courses of action.

(v) **It Helps in Assisting in Planning and Policy Formulation** Since environment is a source of both opportunities and threats, its understanding and analysis only helps in formulating the best possible policies to handle the future properly.

(vi) **It Helps in Improving Performance** Continuous monitoring and adopting changes in an enterprise will help in improving not only their present performance, but also continue to succeed in the market in long run.

3. Explain with examples, the various dimensions of business environment.

Ans: Dimension of business environment

(i) **Economic Environment** It includes the changes in the system due to economic policies made by the government. Reserve Bank of India is the key regulator of country's economic environment since it

- (a) influences the interest rates
- (b) controls the flow of money in the economy
- (c) regulates the working of banks

Example When the banks reduce the interest rates on long term loans, automobiles and construction industries get a boost to the business as more spending is made on the purchase of homes and cars through loans.

(ii) Social Environment

The social environment of business include the social forces like customs and traditions, values, social trends, society's expectations from business etc. In business terms, these values translate into freedom of choice in the market. Major elements of social environment are

- (a) life expectancy
- (b) shifts in the presence of women in the workforce
- (c) consumption habits

Example Due to the shift in the presence of women in the workforce, the demand for readymade ladies formal wear, cosmetics, packed/processed food, electronic gadgets has gone up.

(iii) 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.

Example Because of technological advancement, it has become possible to book railway tickets through internet from home, office etc.

(iv) 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. It is only of use when a business enterprise can predict its business activities under stable political conditions. Major elements of political environment are

- (a) The constitution of the country
- (b) The nature and profile of political leadership and thinking of political personalities
- (c) Political ideology and practices of the ruling party.

Example After the NEP of 1991, due to globalisation the foreign companies started coming to India, but due to the bureaucratic red tape it became difficult for them to cut through it to do business here. As a result, these companies were discouraged in our country regarding investments. The situation has improved overtime.

(v) Legal Environment

Legal environment includes various legislations passed by the Government administrative orders issued by government authorities, court judgements as well as the decisions rendered by various commissions and agencies. It is imperative for the management of every enterprise to obey the law of the land. Therefore, an adequate knowledge of rules and regulations framed by the government is a pre-requisite for better business performance.

Example There is a government regulation to protect consumer's interest e.g., the advertisements of alcoholic beverages is prohibited.

4. What economic changes were initiated by the Government under the Industrial Policy, 1991? What impact have these changes made on business and industry?

Ans: Economic changes initiated by the government under the Industrial Policy, 1991

- (i) The government reduced the number of industries under compulsory licensing to six.
- (ii) The role of public sector was reduced. It was now limited only to four industries of strategic

importance.

(iii) Disinvestment was carried out in case of many public sector industrial enterprises.

(iv) Foreign Direct Investment was permitted.

(v) Automatic permission was now granted for technology agreements with foreign companies.

(vi) Foreign Investment Promotion Board (FIPB) was set up to promote and channelise foreign investment in India.

The Indian corporate sector has come face-to-face with several challenges due to government policy changes. Some of them are

(i) **Increasing Competition** The competition has increased due to entry of new players (privatisation and globalisation).

(ii) **More Demanding Customers** Customers today, has 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) **Rapidly Changes Technological Environment** The rapidly changing technological environment creates tough challenges before smaller firms.

(iv) **Necessity for Change** 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 Resources** Earlier, Indian enterprises worked 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** Before 1991, all firms worked with production oriented marketing operations. In a fast changing world, there was a shift to market orientation. The firms had to study and analyse the market first and produce goods accordingly.

(vii) **Loss of Budgetary Support to the Public Sector** 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.

5. What are the essential features of

(a) Liberalisation

(b) Privatisation

(c) Globalisation

Ans: Ans Essential features of

(a) **Liberalisation**

(i) Abolishing licensing requirements in most of the industries except a short list.

(ii) No restriction on expansion or contraction of business.

(iii) Free movement of goods and services.

(iv) Freedom in fixing the prices of goods and services.

(v) Reduction in tax rates.

(vi) Simplifying procedures for imports and exports.

(vii) Making it easier to attract foreign capital and technology to India.

(b) **Privatisation**

(i) The government redefined the role of public sector.

(ii) Policy of planned disinvestments of the public sector.

(iii) Refining of sick enterprises to the Board of Industrial and Financial Reconstruction.

(c) **Globalisation**

(i) Import liberalisation

(ii) Export promotion

(iii) Foreign exchange reforms

Case Problem

Lately many companies have planned for significant investment in organised retailing in India. Several factors have prompted their decision in this regard.

Customers income is rising. People have developed a taste for better quality products even though they may have to pay more. The aspiration levels have increased. The government has also liberalised its economic policies in this regard and permitted even cent per cent foreign direct investment in some sectors of retailing.

1. Identify 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.

Ans: Changes which have taken place in the following areas are as follows

- (i) **Economic** Availability of more money because of employment opportunities increasing.
- (ii) **Social** Tastes of customers are changing. As he is getting more exposure to the outside world his tastes are changing.
- (iii) **Technological** Technological advancements have led to advanced ways of counting, checking, coding, billing, discounts which are convenient for the customer and also retailer
- (iv) **Political** Government policies are encouraging developers to go for mass construction on real estate. As MNCs are coming to India, they have to be provided an internationally based infrastructure to operate from.
- (v) **Legal** As the government is providing more rights to the consumers, an organised retailing outlets would be more particular in taking care as compared to a small retailer.

2. What has been the impact of these changes with regard to globalisation and privatisation?

Ans: Answer Due to globalisation and privatisation, more retailers from India and abroad are encouraged to make investments in organised retailing. The competition has increased, the consumers are more demanding and expert working force is required in order to cope up with the changes, which have taken place and are further changing.