

Unit 3

Part A

1. What is Business Environment?

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

2. Which of the following does not characterize the business environment?
- Uncertainty
 - Employees**
 - Relativity
 - Complexity
3. Which of the following is an example for social environment?
- Money supply in the economy
 - Consumer Protection Act
 - The Constitution of the country
 - Composition of family**
4. Liberalization means
- Integration among economies
 - Reduced government controls and restrictions**
 - Policy of planned disinvestments
 - None of the above
5. Which of the following does not explain the impact of Government policy changes on business and industry?
- More demanding customers
 - Increasing competition
 - Change in agricultural prices**
 - Market orientation

Part B

6. Give the meaning of Globalization

Globalisation means the integration of the various economies of the world leading towards the emergence of a cohesive global economy. Globalisation involves an increased level of interaction and interdependence among the various nations of the global economy.

7. What is Privatization

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.

Part C

8. Explain any four features of Business Environment

- (i) **Totality of external forces:** Business environment is the sum of all things external to business firms and, as such, is aggregative in nature.
- (ii) **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.
- (iii) **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.
- (iv) **Relativity:** Business environment is a relative concept since it differs from country to country and even region to region. Political conditions in the USA, for instance, differ from those in China or Pakistan. Similarly, demand for sarees may be high in India whereas it may be almost non-existent in France.

9. Explain any four points to explain how important the understanding of Business Environment for managers is.

- (i) **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.
- (ii) **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. Besides opportunities, 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 signal.
- (iii) **It helps in coping with rapid changes:** Today's business environment is getting increasingly dynamic where changes are taking place at a fast pace. It is not the fact of change itself that is so important as the pace of change. Turbulent market conditions, less brand loyalty, divisions and sub-divisions (fragmentation) of markets, more demanding customers, rapid changes in technology and intense global competition are just a few of the images used to describe today's business environment.
- (iv) **It helps in assisting in planning and policy formulation:** Since environment is a source of both opportunities and threats for a business enterprise, its understanding and analysis can be the basis for deciding the future course of action (planning) or training guidelines for decision making (policy).

10. Explain any four challenges that were to be faced by business and industry due to changes in Government Policy.

- (i) **Increasing competition:** Because 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) **Rapidly 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 because of which the enterprises have to continuously modify their operations.

Part D

11. Explain the features of business environment

It can be said business environment, has the following features:

- (i) **Totality of external forces:** Business environment is the sum total of all things external to business firms and, as such, is aggregative in nature.
- (ii) **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.
- (iii) **Inter-relatedness:** Different elements or parts of business environment are closely interrelated. For example, increased life expectancy of people and increased awareness for health care have increased the demand for many health products and services like diet Coke, fat-free cooking oil, and health resorts. New health products and services have, in turn, changed people's life styles.
- (iv) **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.
- (v) **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.
- (vi) **Complexity:** Since business environment consists of numerous interrelated and dynamic conditions or forces which arise from different sources, it becomes difficult to comprehend at once what exactly constitutes a given environment. In other words, environment is a complex phenomenon that is relatively easier to understand in parts but difficult to grasp in its totality. For example, it may be difficult to know the extent of the relative impact of the social, economic, political, technological or legal factors on change in demand of a product in the market.
- (vii) **Relativity:** Business environment is a relative concept since it differs from country to country and even region to region. Political conditions in the USA, for instance, differ from those in China or Pakistan. Similarly, demand for sarees may be high in India whereas it may be almost non-existent in France.

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

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.



- (i) **Economic Environment:** Interest rates, inflation rates, changes in disposable income of people, stock market indices and the value of rupee are some of the economic factors that can affect management practices in a business enterprise. Short and long-term interest rates significantly affect the demand for product and services. For example, in case of construction companies and automobile manufacturers, low longer-term rates are beneficial because they result in increased spending by consumers for buying homes and cars on borrowed money.
- (ii) **Social Environment:** 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 decades or even centuries. For example, the celebration of Diwali, Id, Christmas, and Guru Parv in India provides significant financial opportunities for greetings card companies, sweets or confectionery manufacturers, tailoring outlets and many other related business
- (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. For example, recent technological, advances in computers and electronics have modified the ways in which companies advertise their products.
- (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. For example, even after opening of our economy in 1991, foreign companies

found it extremely difficult to cut through the bureaucratic red tape to get permits for doing business in India.

- (v) **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 various commissions and agencies at every level of the government— centre. For example, the advertisement of alcoholic beverages is prohibited. Advertisements, including packets of cigarettes carry the statutory warning ‘Cigarette smoking is injurious to health’.