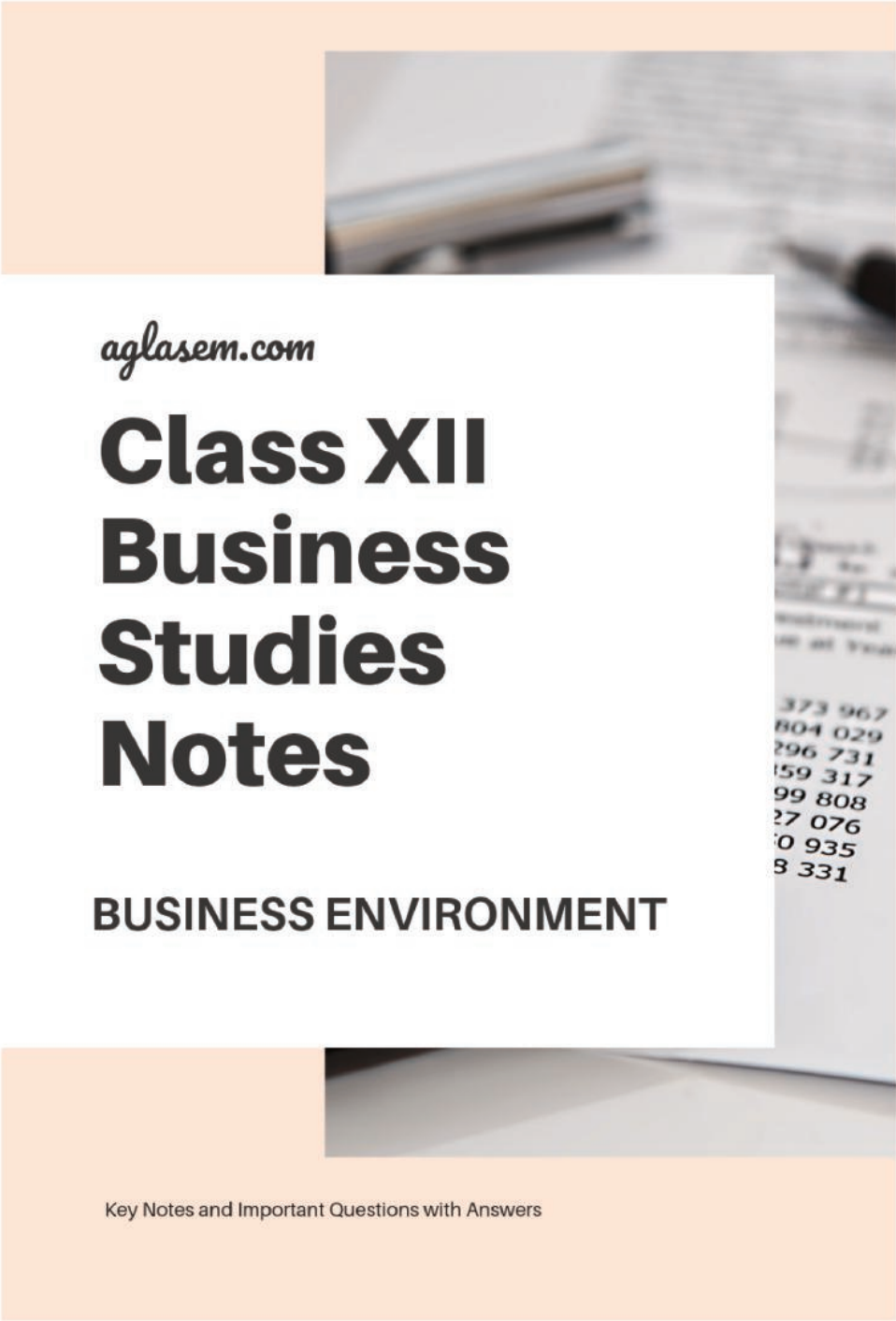




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Class XII Business Studies Notes

BUSINESS ENVIRONMENT

Key Notes and Important Questions with Answers

CHAPTER - 3

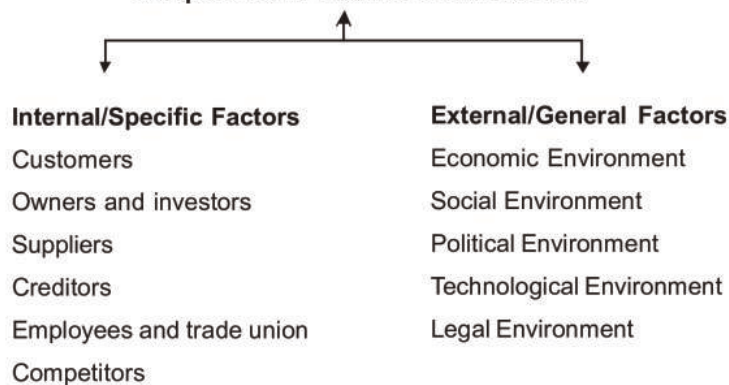
BUSINESS ENVIRONMENT

Business environment means the sum total of the factors which influence the business and over which the business has no control. The study of business environment enables the managers to identify threats and opportunities.

Features of Business Environment

1. **Totality of external forces:** Business environment is the sum total of all the forces/factors external to a business firm.
2. **Specific and general forces:** Business environment includes both specific and general forces. Specific forces influence business firm directly while general forces affect a business firm indirectly.

Components of Business Environment



3. **Inter-relatedness:** All the forces/factors of a business environment are closely interrelated. For example, increased awareness of health care has raised the demand for organic food and roasted snacks in turn change the life style of people.
4. **Dynamic:** Business environment is dynamic in nature which keeps on changing with time. It may be change in technology, fashion and tastes etc.

5. **Uncertainty:** Business environment is uncertain as it is difficult to predict the future environmental changes and their impact with full accuracy.
6. **Complexity:** Business environment is complex which is easy to understand in parts separately but it is difficult to understand in totality.
7. **Relativity:** Business environment is a relative concept whose impact differs from country to country, region to region and firm to firm. For example, demand for ready to eat healthy food will be more in urban areas than in rural areas.

- Q.1** Business Environment includes both specific and general forces. List any two specific forces. (Any two- Investors, customers, bankers, suppliers, creditors, employees, trade unions.)
- Q.2** Why is it said that business environment is dynamic in nature. (Because it keeps changing with time)

IMPORTANCE OF BUSINESS ENVIRONMENT

1. **Identification of opportunities to get first mover advantage:**
Understanding of business environment helps an organisation in identifying advantageous opportunities and getting their benefits prior to competitors, thus reaping the benefits of being a pioneer.
2. **Identification of threats and early warning signals:** Correct knowledge of business environment helps an organisation to identify those threats which may adversely affect its operations. For example, Bajaj Auto made considerable improvements in its two wheelers when Honda & other multinational companies entered the auto industry.
3. **Tapping useful resources:** Business environment makes available various resources such as capital, labour, machines, raw material etc. to a business firm. In order to know the availability of resources and making them available on time at economical price, knowledge of business environment is necessary.

4. **Coping with Rapid changes:** Continuous study/scanning of business environment helps in knowing the changes which are taking place and thus they can be faced effectively by developing suitable course of action.
5. **Assistance in planning and policy formulation:** Understanding and analysis of business environment helps an organisation in planning & policy formulation. For example, ITC Hotels planned new hotels in India after observing boom in tourism sector.
6. **Helps in Improving performance:** Correct analysis and continuous monitoring of business environment not only helps an organisation in improving its performance but also continue to succeed in the market for longer time.

DIMENSIONS/COMPONENTS OF BUSINESS ENVIRONMENT

1. **Economic Environment:** It represents the nature of an economy, its policy, systems and all those forces that have bearing on business activities like. Rate of interest, inflation rate, change in the income of people, monetary policy, price level etc. are some economic factors which could affect business firms.

Examples :

- Decline in tax rates raises the disposable income of people leading to increase in demand for products.
- Rise in inflation increases the cost of raw material, machine, payment of wages and salaries.
- Demonetization implemented by RBI.
- Changes in economic and fiscal policies have encouraged NRI's and foreign investors to invest in India.
- Make in India was launched for job creation and skill enhancement.
- RBI allowed commercial banks to reduce interest rates on loans to tackle recession.
- The banks offering loans at reasonable interest rates with minimum required formalities because of banking sector reforms.

2. **Social Environment:**It includes various social forces such as customs, beliefs, literacy rates, educational levels, lifestyle, values etc. Changes in social environment affect an organisation in the long run. Example: Now a days people are paying more attention towards their health, as a result of which demand for mineral water, Diet coke etc. has increased while demand of tobacco, fatty food products has decreased.

Examples :

- Festivals like Diwali, Eid, Christmas, etc. lead to increase in demand for greeting cards, sweets, gifts etc.
- Equal pay/pay scales to male and female workers for equal work.
- Demand for reservation in jobs for minority and women.
- 'Beti Padhao, Beti Bachao' movement started for encouraging education of girl child.
- Swachh Bharat Abhiyaan introduced for welfare of society.

3. **Technological Environment:**It implies using new and advanced ways/ techniques of production. A businessman must closely monitor the technological changes taking place in the industry as it helps in facing competition and improving quality of the product. For Example, Digital watches in place of traditional watches, booking of railway tickets on internet etc.

Examples :

- Payments through e-wallets, PayTm etc.
- Change from fountain pens to ball pens.
- Dematerialization of securities.
- Cable TV adversely affected radio industry.
- Introduction of artificial intelligence, like Siri in iPhones.

4. **Political Environment:** It includes political conditions and factors related to government affairs and their impact on business. Political stability builds confidence among business community while political instability and bad law & order situation may bring uncertainty in business activities. Ideology of

the political party, attitude of government towards business, type of government-single party or coalition government affects the business. Example: Bangalore and Hyderabad have become the most popular locations for IT due to supportive political climate.

Examples :

- Crash in share prices due to change in Vajpayee government in 1999.
- PM's frequent visit to foreign countries for promoting business relationships.
- Hyderabad has become the IT hub due to political support.
- Compensation given by government for acquiring property for building infrastructure facilities, like metro construction.
- GST introduced and implemented in place of VAT.

5. **Legal Environment:** It constitutes the laws and legislations passed by the Government, administrative orders, court judgements, decisions of various commissions and agencies. Example: Advertisement of Alcoholic products is prohibited and it is compulsory to give statutory warning on advertisement of cigarettes.

Examples :

- Supreme Court issuing orders to seal unauthorised shops and constructions.
- Law ensuring green dot for every vegetarian eatable products and red dot for non-vegetarian products.
- Supreme Court passing an order to close the iron factories around Taj Mahal to avoid air pollution affecting it.

Q.3 Identify the type of dimension of business environment related to the following:

- (i) Banks reducing interest rate on housing loans.
- (ii) An increasing number of working women.
- (iii) Booking of air tickets through internet.
- (iv) Alcohol beverages are prohibited to be advertised on Doordarshan.
- (v) A stable government has built up confidence among the firms to invest in big project.

[(i)economic, (ii)Social, (iii)Technological, (iv)Legal, (v) political]

Economic Environment in India

As a part of economic reforms, the Government of India announced New Economic Policy in July 1991. This policy has sought to liberate industry from restrictions of licencing system (liberalisation), drastically reduce the.

The main objective of New Industrial Policy was to promote Liberalization, Privatization and Globalization.

1. **Liberalisation:** It means freeing of Indian Industry from all unnecessary government controls and restrictions. Abolishing licensing requirements; Freedom in deciding the scale of business; removals of restriction on movements of goods and service; reduction in tax rates; freedom in fixing prices; simplifying procedures; making it easier to attract foreign investment.
2. **Privatization:** Giving greater role to private sector in the nation building process and reduced role of public sector; Disinvestment in many Public Sector undertaking which would result in converting public sector undertakings to private sector hence diluting government ownership by and 51%. It aimed at improving efficiency and performance of government undertakings, reducing budgetary deficit & better utilization of national resources.
3. **Globalization:** It means integration of various economies of the world leading to the emergence of cohesive global economy. The measures taken

by the Government include trade liberalization which includes import liberalization; Export Promotion through rationalization of tariff structure; Foreign exchange liberalization; increased interaction among global economies under the aegis (protection/support) of World Trade Organization. It resulted in addition of Export duty, Reduction of import.

- Q.4** State how business environment helps in coping with rapid change. (by knowing in advance & developing suitable course of action)
- Q.5** State any two reasons why managers should understand business environment (Any two points of importance starting with it helps the managers....)
- Q.6** Can the effect of various factors of business environment on business be recognised separately? (No, as the factors are related to each other)

IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY

1. **Increasing Competition:** Delicensing and entry of foreign firms in Indian market has increased the level of competition for Indian firms.
2. **More Demanding Customers:** Now customers are more aware and they keep maximum information of the market as the result of which, now market is customer/buyer oriented. Now products are produced keeping in mind the demands of the customers.
3. **Rapidly Changing Technological Environment:** Rapid Technological advancement has changed/improved the production process as a result of which maximum production is possible at minimum cost but it leads to tough challenges in front of small firms.
4. **Necessity for Change:** After New Industrial Policy, the market forces (demand & supply) are changing at a very fast rate. Change in the various components of business environment has made it necessary for the business firms to modify their policies & operations from time to time.
5. **Need for Developing Human Resources:** The changing market conditions require people with higher competence and greater commitment. Hence

there is a need for developing human resources which could increase their effectiveness and efficiency.

6. **Market Orientation:** Earlier selling concept was famous in the market now its place is taken by the marketing concept. Today firms produce those goods & services which are required by the customers. Marketing research, educational advertising, after sales services have become more significant.
7. **Reduction in budgetary Support to Public Sector:** The budgetary support given by the government to the public sector is reducing thus the public sector has to survive and grow by utilising their own resources efficiently.

Managerial response to changes in business environment : The impact of changes in economic policy of government has made managers aware of various areas where they have to focus to keep their business environment help them to take decision regarding increasing competition, the demands of customers and their expectations (consumer is the king), rapidly changing technological environment, necessity to adapt to change and need for developing human resources.

DEMONETIZATION

Concept

Demonetization is the withdrawal of a particular currency from circulation.

In India, it was introduced by the government on November 8, 2016, in which ₹1000 and ₹500 notes were no longer accepted as medium of exchange. A new ₹2000 note was introduced as a legal tender. It led to loss of liquidity in India for some time.

Its aim was to :

- Curb corruption
- Reduce accumulation black money, and
- Counterfeit the use of high denomination notes for illegal activities

Features

1. **Tax administration:** People with black money had to declare their unaccounted wealth and pay taxes at a penalty rate.
2. **Channelizing savings:** Banks offered new deposit schemes in which people invested heavily. This led to increased liquidity in banks.
3. **Cashless economy:** It encouraged digital transactions or e-transactions, thus leading to cashless economy.
4. **Elimination of terror funding:** It will help in fighting against terror funding and smuggling by reducing the use of high value currency notes.

Conclusion

Though it created a temporary shortage of cash and rush at banks, but it will have a positive impact on GDP in the long run.

QUESTIONS FOR PRACTICE

- Q.1** It is the process by which government control over the industry is being loosened. Give the term to which this statement is trying- to indicate. (Liberalisation) (1)
- Q.2** "The understanding of business environment enables the firm to identify opportunities." What is meant by 'opportunities' here? (Possibility to start a new venture or launch a new product to earn more than competitors.) (1)
- Q.3** "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." Which feature of business environment is highlighted by this point? (Complex) (1)
- Q.4** Government of India announced a new economic policy in July 1991 which provided greater role to private sector in nation building. Identify and explain the concept.
- Q.5** Just after declaration of Lok Sabha Elections 2014 results, the Bombay Stock Exchanges price index (Sensex) rose by 1000 points in a day. Identify the environmental factor which led to this rise giving reason. Also, explain any two other dimensions of business environment. (Political and any two form economic, technical, legal and social environments) (3)
- Q.6** Explain : "uncertainty" and "Complexity" as features of business environment.
(Difficulty in predicting future, numerous inter-related dynamic conditions and forces) (3)
- Q.7** '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 this 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. (Importance of business environment)

- Q.8** The court issued the order that it is essential for the vehicles to be smokeless and that any one violating this order shall have to pay a heavy fine. Abiding by this order was necessary for the health of people. Making this strict order of the court as the base; 'Gyan Motors Limited' resolved to manufacture such vehicles by using modern technology as should not produce any smoke at all. The government should also announce to provide help in several ways to set up such industrial units.

Identify the three dimensions of Business Environment described in the paragraph above by quoting the relevant lines.

Write about any one of the values for society granted by the court. (5)

EVALUATION QUESTIONS

UNIT-I

- Q1.** X Ltd. was manufacturing water heaters. In the first year of its operations, the revenue earned by the company is less. The Co. analysed the reasons of less revenue. After analysing the company decided: -
- (a) to reduce the labour cost by shifting the manufacturing unit to a backward area where labour was available at a very reasonable rate.
 - (b) to start manufacturing solar water heaters and reduce production of electric water heaters slowly.
- (i) Which functions of management are indicated here? [Hint: Planning & Controlling]. (1)
- (ii) Which dimension of business environment is applied here? [Social] (1)
- (iii) State any two values which the company wanted to communicate to the society. (Generating employment in backward area, ecological awareness). (2)
- Q2.** XYZ Ltd. Co., manufacturing cosmetics and enjoying a predominant position in the industry has grown in size. Its business was very good till 1991. But after that new liberalized environment has seen the entry of many MNCs in this sector with the result that market share of XYZ has declined. The company followed a very centralised business model with directors and divisional heads making even minor decisions.
- (a) Which function of management is being indicated here? (Organising)
- (b) What dimension of environment is implicit in this case? Indicate by quoting the lines from above para. (b) Political]

Q3. Meera, Chairperson of Sunshine Ltd. feels that she is the only one responsible for the successful management of company because other persons are just following what is told to them and she has to see to it that only the organisations goals are important. No other thing matters.

- (a) Do you agree with her belief?
- (b) Which feature of management is lacking here?
- (c) Which principle of management is being ignored here? Explain briefly.

[Hint: (a) No. (b) Management is group activity (c) Espirit De corps]

Q4. A.R. Rehman is the first Indian to win the oscar award for his composition "Jai Ho". His composition of music is unique and different as he has used the singing notes in a manner that is entirely his own interpretation. Like A.R. Rehman, Nandan, a general manager in Expert Sales Ltd. uses his knowledge of management in a unique and different manner and all the employees working under his guidance are happy and satisfied. He rewards the employee who came to office in time.

- (a) Identify the nature of management highlighted above. Give reason. (2)
- (b) Which Principle of Management are reflected by Nandan's behaviour? (2)
- (c) Which value does Nandan want to inculcate in his employees? (1)

[Hint : (a) Management as an art

(b) Harmony, not Discord

(c) Good behaviour in human interaction

Q5. Mr. Singh owner of leather garments factory sends his marketing head to Europe every quarter to understand the changes in fashion. This helps to prepare his latest range in line with customers' demands and expectations.

- (a) Identify the characteristic of management indicated here?
- (b) Which dimension of business environment is indicated here? Give any two impacts of it on business.

[Hint: (a) Dynamic (b) Social environment]

Q6. Mr. Bali, the Production manager of classic Ltd. is successfully running his department. He has created such an environment that no one becomes hurdle in anybody's work, but all of them are ready to help each other. Mr. Bali has been observing a change in market for last few days. In the past they used to produce goods according to their will and with a little bit of effort could sell them. But now they have to produce goods as desired by the people. When Mr. Bali investigated to know the reasons for this change, he came to know that on account of positive policies of the govt., running the business had become easy. Due to this, several new people had entered the business. Consequently, competition has increased and now the control of the market had slipped out of the hands of producers into the hands of customers.

- (a) Identify the concept of management described here? Give two points of its importance. (2)
- (b) Identify the business environment dimension and the concept there of. (2)

[Hint: (a) Co-ordination and its importance (any two) (b) Economic environment and Liberalisation].

Q7. The Govt. has been watching for some time that the performance of industry in the Public sector is not coming up to the level of standardisation. Several efforts have been put in, but because of no improvement in it, the Govt. decided to increase the role of Private sector in some areas of Public sector. This would bring about improvement in the level of performance. The reason for the Govt. to make this decision was that the different departments of an industrial unit in Public sector do not work with each other. The situation in private sector is entirely opposite to it.

- (a) Identify the concept of Management which shows the failure of Public sector. Give its importance also.
- (b) Which concept of business environment has been described in above case? Identify it and give its meaning.

[Hint: (a) Co-ordination (b) Privatisation]

Q8. Mr. Singh is working as the General Manager in a chain of hotels. Keeping a watch over the business environment is included in his routine. For the last few days Mr. Singh has been observing that the Govt. is taking special interest in Tourism Industry. The receipt of foreign exchange and employment promotion are its reasons. On the basis of this news he decided to set up hotels at several tourist places. They established several hotels before other companies considered this issue. Very soon, their hotels became well-known in the market. Behind the fame of this company another reason was that this company was giving its employees not only the responsibility but also the authority of completion of work. The environment being to their liking now they had started meeting their managers with the latest ideas, which are taken by the company.

- (a) Identify the importance of business environment described here by quoting the relevant lines.
- (b) Identify the principles of Management being used in the Company.
- (c) On which level is Mr. Singh working. Write any two more functions performed at that level.

[Hint: (a) (i) Assisting in planning & Policy formation –

The Govt. is taking.....

(ii) Dynamic - They establish several

(b) (i) Principle of Authority & Responsibility

(ii) Principle of Initiative

(c) Top level Management.]

Q9. In a reputed Co., for the last few days, differences have cropped up between management and workers. The workers were demanding more bonus. This matter has aggravated so much that the attention of both the parties has been diverted from production to division of profits. Consequently, the profits of the company began to fall down.

In order to assess the situation of Co.'s rapidly falling profits, a team of specialists was invited. After investigation, besides the differences, one more fact was revealed. That fact was the Purchase Manager of the company was purchasing raw material from the co. run by his own brother at a price more than market price. So, with the increase in cost, profit was reduced.

Due to poor performance, many customers also left the company.

- (a) Which principle of scientific management will be suitable for the company to be followed and why?
- (b) Which principle of management given by Henry Fayol is being ignored by the co.? Explain briefly.
- (c) Which factors of Business environment are affecting the Co? Identify the type and factors.

[Hint: (a) Harmony not discord.

(b) Principle of Subordination of Individual Interest to General interest.

(c) External Factors - Customers

Internal Factors - Employees].