

NCERT SOLUTIONS

CLASS - 12th



aglasem.com

Class : 12th

Subject : Business Studies

Chapter : 3

Chapter Name : Business Environment

Q1 What is meant by the business environment?

Answer. Business environment refers to 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. It may include all the technical, political, legal or other factors which cannot be controlled by the business enterprise but they may affect its performance.

Page : 90 , Block Name : Very Short Answer Questions

Q2 How does understanding of the business environment help in improving performance of a business?

Answer. It is important for business organizations to understand their environment because of the following reasons.

- Enables the Firm in identifying opportunities and getting first mover advantage.
- Helps the Firm in identifying threats and getting early warning signals.
- It Helps in Tapping Useful Resources.
- It Helps in Coping with Rapid Changes.
- It Helps in Assisting in Planning and Policy Formulation.

Page : 90 , Block Name : Very Short Answer Questions

Q3 Give an example to show that a business firm operates within numerous inter related factors constituting the business environment. (Hint: example highlighting the inter relatedness of dimensions of business environment).

Answer. Inter-relatedness: A business firm operates in a very complex and dynamic business environment. All the elements of the business environment are interrelated. For example - Increased dependence of the modern generation on technological products has increased the demand for mobile phones and other technical products.

Page : 90 , Block Name : Very Short Answer Questions

Q4 Krishna Furnishers Mart started its operations in the year 1954 and emerged as the market leader in the industry because of their original designs and efficiency in operations. They had a steady demand for their products but over the years, they found their market share declining because of new entrants in the field. The firm decided to review their operations and decided that in order to meet the competition, they need to study and analyze the market trends and then design and develop their products accordingly. List any two impacts of changes in business environment on Krishna Furnishers Mart's operations. (Hint: increase in competition and Market orientation).

Answer.

→ Increasing Competition : With the easy licensing policy in the country, many new businessmen enter the market and thus the percentage share in overall market output decreases. This makes the competition intense and the firms compete with each other to get more market share.

→ Market Orientation: In the early stages of marketing, production was taken up first and then selling was done. But now the firms first do market analysis to find out the demand of the customers and then produces a product.

Page : 90 , Block Name : Very Short Answer Questions

Q5 Name any two Specific forces of business environment affecting business.

Answer. Specific forces are those forces of external environment which affect the individual enterprises directly and Immediately, e.g., customers, suppliers etc.

Page : 90 , Block Name : Very Short Answer Questions

Q1 Why is it important for business enterprises to understand their environment? Explain.

Answer. It is important for business organizations to understand their environment because of the following reasons.

- It Enables the Firm to Identify Opportunities and getting the First Mover Advantage: The business environment provides numerous opportunities for business. If the firms will identify these opportunities and will try to encash it earlier than its competitors then it will help in the development of these businesses.
- It Helps the Firm to Identify Threats and Early Warning Signals: Besides providing opportunities, the business environment also poses threats. If the firms will identify these threats then it will be able to cope with them.
- It Helps in Tapping Useful Resources: The business environment provides several resources which are known as inputs to the business enterprises in order to run a business successfully. A business can get all the resources for its operations from the environment.
- It Helps in Coping with Rapid Changes: The business environment is very dynamic and fast changing. All types of enterprises have to face this and adapt to new changes. In order to adapt to these changes, the managers have to understand and analyse the environment.

Page : 91 , Block Name : Short Answer Questions

Q2 Explain the following terms:

a. Liberalization b. Privatization c. Globalization

Answer. The three important features of New Economic Policy, 1991 are as follows -

→ Liberalization : Liberalisation is the economic policy of the government to provide easy licensing policies and to liberalise the economy from all unnecessary controls and restrictions. After the introduction of this policy, the license-permit quota raj ended.

→ Privatization : Privatization refers to all those initiatives of the government which aimed at increasing the role of the private sector in the nation building process and reducing the role of the public sector.

→ Globalization : The process of integrating an economy with the global economy leading to opening of the economy to the world economy is termed as Globalization. Till 1991, India had a policy which strictly regulated imports in value and volume terms. After 1991, the reforms aimed at import liberalization.

Page : 91 , Block Name : Short Answer Questions

Q3 Briefly discuss the impact of Government policy changes on business and industry.

Answer. Impact of Government policy changes on business and industry

→ Increasing Competition : After the globalisation and privatisation of the Indian economy, many new firms entered the economy. Thus the competition increased manifolds.

(ii) More Demanding Customers : Increased competition in the market gives the customer wider choices to select good quality products at competitive prices. Thus the customers became more demanding.

→ Rapidly Changing Technological Environment : Due to increased technical innovations, new machines were launched and it helped in the manufacturing of better quality products at competitive prices. However it imposed a threat on small businesses who cannot afford these machines.

→ Need for Developing Human Resources : Due to the advanced technologies and more competitive markets, there was a need for people having greater competencies and more commitment towards the job. Hence, the need for developing human resources emerged.

Page : 91 , Block Name : Short Answer Questions

Q1 How would you characterize the business environment? Explain with examples, the difference between general and specific environment.

Answer. Features of business environment

- The Totality of External Forces : Business Environment is composed of all the things which are external to the business enterprises. Thus it is aggregative in nature.
- Inter-relatedness: Different elements of business environment are closely related to each other, e.g., increased dependence on the technology has led to the development of mobile phones and technological companies.
- Dynamic Nature : The business environment isn't static. It keeps on changing at a very fast pace. Thus it is dynamic in nature, There may be a change in technology, tastes and preferences of consumers etc.
- Complexity : Since the business environment is made up of many elements which are dynamic and interrelated. Thus it is very complex when studied as a whole and it becomes difficult to study it wholly.

Difference between Specific and General Environment : There are two types of forces operating in the business environment, namely specific and general forces. Specific forces are those forces which affect the individual enterprises directly and immediately, e.g., customers, suppliers.

General forces are those forces which affect all the firms and they have an indirect impact on the businesses e.g., social conditions or political conditions.

Page : 91 , Block Name : Long Answer Questions

Q2 How would you argue that the success of a business enterprise is significantly influenced by its environment?

Answer. Importance of business environment

- It Enables the Firm to Identify Opportunities and getting the First Mover Advantage: The business environment provides numerous opportunities for business. If the firms will identify these opportunities and will try to encash it earlier than its competitors then it will help in the development of these businesses.

- It Helps the Firm to Identify Threats and Early Warning Signals: Besides providing opportunities, the business environment also poses threats. If the firms will identify these threats then it will be able to cope with them. The managers have to make suitable policies after identifying these threats.
 - It Helps in Tapping Useful Resources: The business environment provides several resources which are known as inputs to the business enterprises in order to run a business successfully. A business can get all the resources for its operations from the environment.
 - It Helps in Coping with Rapid Changes: The business environment is very dynamic and fast changing. All types of enterprises have to face this and adapt to new changes. In order to adapt to these changes, the managers have to understand and analyse the environment.
 - It Helps in Assisting in Planning and Policy Formulation : Since the environment provides both opportunities and threats to the firms, thus its understanding and analysis by the management helps in formulating policies for the long run sustainability and growth of business.
- (vi) It Helps in Improving Performance : If the management will continuously monitor and adapt the changes of the business environment, then it will be able to improve not only their present performance but also future performance. It will also continue to succeed in the market in the long run.

Page : 91 , Block Name : Long Answer Questions

Q3 Explain, with examples, the various dimensions of the business environment.

Answer. Dimension of business environment :

1. Economic Environment :

The economic environment includes all those factors which are related to the changes in the economic policies of the government and the Reserve Bank of India which regulates all the economic policy formulation of the economy. It -

- Influences the interest rates.
- controls the flow of money in the economy.
- regulates the working of banks.

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. The social traditions and customs affect the business enterprises to a large extent. Major elements of social environment are -

- life expectancy rate
- Involvement of women in the industrial sector
- consumption habits

Example - Due to the more health consciousness among the people, the demand for healthy food products, multi nutrition and gymming etc. has increased manifolds.

3. Technological Environment -

The technological environment deals with the scientific improvements and innovations in the field of industries. It provides modern, cheaper and faster ways of producing goods and services and new methods and techniques of operating a business.

Example - Nowadays the work culture has been shifted to the online job centres and online marketing strategies are adopted by the companies to persuade their customers to buy a product.

4. Political Environment -

Political environment includes political conditions such as general stability and peace in the country and specific attitudes of the elected government representatives towards business. Major elements of political environment are -

- The constitution of the country.
- The thinking and attitude of the elected politicians towards the business sector.
- Political ideology and practices of the ruling party.

Example - The government of India under the Prime Minister Narendra Modi has provided a lot of support and financial assistance to the industrial sector. It has made several policies for attracting foreign companies to India. Thus they hold positive attitude towards the business.

5. Legal Environment -

Legal environment includes various legislation passed by the Government administrative orders issued by government authorities, court judgements as well as the decisions rendered by various commissions and agencies. Every person or institution has to obey the law of the land in which it is working.

Example - There is a ban on the advertisement of the alcoholic beverages in India. Thus the companies have to obey to this law if they want to continue their business.

Page : 91 , Block Name : Long Answer Questions

Q4 The government of India announced Demonetization of Rs 500 and Rs 1,000 currency notes with effect from the midnight of November 8, 2016. As a result, the existing Rs 500 and Rs 1,000 currency notes ceased to be legal tender from that date. New currency notes of the denomination of Rs 500 and Rs 2,000 were issued by the Reserve Bank of India after the announcement. This step resulted in a substantial increase in the awareness about and use of Point of Sale machines, ewallets, digital cash and other modes of cashless transactions. Also, increased transparency in monetary transactions and disclosure led to a rise in government revenue in the form of tax collection.

- a. Enumerate the dimensions of the business environment highlighted above.
- b. State the features of Demonetization

Answer. The dimensions of the business environment highlighted in the above case are -

Economic dimension - Economic environment includes the monetary policies of the Reserve Bank of India and the economic policies of the government. Here, the Demonetisation of the legal tender notes is a part of the economic environment.

Technological environment - It relates to the technological advancements and new innovations in this field. Here the introduction of sale machines, ewallets, digital cash and other modes of cashless transactions are all part of the technological environment.

Features of demonetization are :

- Existing Rs 500 and Rs 1,000 currency notes ceased to be legal tender.
- New currency notes of the denomination of Rs 500 and Rs 2,000 were issued by the Reserve Bank of India.

From 8th November, 2016 onwards, no payment will be received in the old ₹500 and ₹1000 currency denominations.

Government emphasised more on the cashless transactions rather than the cash transactions.

Page : 91 , Block Name : Long Answer Questions

Q5 What economic changes were initiated by the Government under the Industrial Policy, 1991? What impact have these changes made on business and industry?

Answer. Economic changes initiated by the government under the Industrial Policy, 1991

- Under the Liberalisation policy, the government ended the requirement of license in many industries and only six industries were required to obtain licences.
- The role of private sector was increased through privatisation while the public sector was confined only to four industries of strategic importance.
- Many public sector undertakings were disinvested by the government of India.
- Foreign Direct Investment was permitted in many sectors with fewer regulations.
- Automatic permission was now granted for technology agreements with foreign companies.
- Foreign Investment Promotion Board (FIPB) was set up to promote and channelise foreign investment in India.

The corporate sector of India had to face a lot of challenges due to these changes. Some of them are as follows -

→ Increasing Competition : After the globalisation and privatisation of the Indian economy, many new firms entered the economy. Thus the competition increased manifolds.

(ii) More Demanding Customers : Increased competition in the market gives the customer wider choices to select good quality products at competitive prices. Thus the customers became more demanding.

→ Rapidly Changing Technological Environment : Due to increased technical innovations, new machines were launched and it helped in the manufacturing of better quality products at competitive prices. However it imposed a threat on small businesses who cannot afford these machines.

→ Need for Developing Human Resources : Due to the advanced technologies and more competitive markets, there was a need for people having greater competencies and more commitment towards the job. Hence, the need for developing human resources emerged.

→ Necessity for Change : After the introduction of new economic policy, there was stiff competition in the market due to which the firms had to continuously modify their operations to survive in the market.

- Market Orientation : Before the introduction of new economic policy, all firms worked with production oriented marketing operations. However after this policy, the focus was on fulfilling the needs of the customers by proper market research and analysis.
- Loss of Budgetary Support to the Public Sector : The public sector undertakings had to be more efficient to survive in the market and to grow and the budgetary support from the government was reduced to a large extent. Thus they had to survive and grow on their own resources.

Page : 91 , Block Name : Long Answer Questions

Q6 What are the essential features of: a. Liberalisation, b. Privatization and c. Globalisation?

Answer.

1. The essential features of liberalisation are as follows -
 - Abolishing licensing requirements in most of the industries except a short list.
 - No restriction on expansion or contraction of business.
 - Free movement of goods and services.
 - Freedom in fixing the prices of goods and services.
 - Reduction in tax rates.
 - Simplifying procedures for imports and exports.
 - Making it easier to attract foreign capital and technology to India.
2. The basic features of Privatisation are as follows-
 - Redefining the role of the public sector by the government of India.
 - Planned disinvestment of the public sector undertakings in the hands of the private entrepreneurs.
 - Refining sick enterprises to the Board of Industrial and Financial Reconstruction.
3. The essential features of globalisation are as follows -
 - Liberalising imports from unnecessary tariffs and quotas.

- Promotion of exports by providing subsidies and other benefits.
- Foreign exchange reforms by easy policies for entering into the global markets.

Page : 91 , Block Name : Long Answer Questions

aglasem.com