**UNIT-3**

**BUSINESS ENVIRONMENT**

**ONE MARK QUESTION**

**1. Give an example of social environment?**

**Ans- Social attitude, Customs and rituals.**

**2. Name the act that protects the interest of consumer trade.**

**Ans- Consumer Protection Act 1986**

**3. In which year the world trade organization came in began?**

**Ans- 18th January 1985**

**4. What is the purpose of inacting the consumer protection act 1986?**

**Ans- Providing better protection to the consumer.**

**5. The information Technology Act 2002 comes under what type of environment.**

**Ans- Legal regulatory environment**

**6. What is the main objective of FEMA?**

**Ans- Facilitating external trade and payment.**

**7. Write the impact of government policy changes on business and industry?**

**Ans- Globalization, Liberalization and privatization**

**8. Which policy of government has moved India towards globalization?**

**Ans- The new economic policy of 1991.**

**9. What do you mean by disinvestment?**

**Ans- Disinvestment is meant selling of the share capital of public sector unit to the private sector.**

**10. What is the name of the economy when public and private sector co exist?**

**Ans- Mixed Economy**

**11. Why is it said that business environment is a relative concept?**

**Ans- Business environment is relative concept because it differs from nation to nation and even region to region.**

**12. Give two examples of marketing intermediaries?**

**Ans- Wholesaler and retailers**

**13. Which sector of Indian economy was given greater importance after independence?**

**Ans- Public Sector**

**LONG QUESTION**

**1. What is business environment? Explain the characteristics of business environment.**

**2. Explain the need and importance of business environment?**

**3. Discuss in detail about the different components of business environment?**

**4. Explain some strategies that are available to manager to deal with changing business environment?**

**5. Mention the economic reforms that have been initiated by the government since 1921.**

**6. What is liberalization?**

**7. Explain the impacts of government policy changes on business and industry.**

**8. How is business influenced by the political and legal environment.**

**9. How does social and technological environment influence the working of business.**

**10. Write three salient features of new industrial policy.**

**11. Write three effects of political environment.**

**12. What is micro environment? Explain the four components of its.**

**DELETED QUESTION NOT NEEDED THIS YEAR**

**5. Write a brief note on economic environment in India.**

**8. What is privatization?**

**9. What is globalization?**

**10. Mention the impact of Globalization and liberalization in India?**

**11. What are the obstacles to Globalization in India?**

**15. Explain three positive impacts of Globalization and liberalization in India.**

**16. Write three negative impact of globalization in India.**

**19. Liberalization and globalization have created both challenges and opportunities for the Indian business? Discuss the statement.**

**21. Explain three major components of economic environment.**

**ANSWER**

**1. What is business environment? Explain the characteristics of 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 may affect its performance. For example, changes in governments, political uncertainty, changes in fashions and tastes of consumers and increased competition in the market etc.

‘ Business environment is the aggregate of all conditions, events and influence that surround and affect it.’ – Keith Davis

**The Characteristics of business environment are as follows-**

**I. Complexity-** Business environment is very complex as it is very difficult to know the relative impact of the social, economic, political, technological factors change in demand of a product in the market.

**II. Uncertainty-** Business environment is largely uncertain. It is very difficult to predict the changes of business environment. For example in IT and fashion industry frequent and fast changes taking place.

**III. Environment is dynamic-** Business environment is a constantly changing process. No environment remains constant or static for a longer period of time. The government may change certain policies; there may be changes in consumer tastes, preferences etc.

**IV. Relativity**- Business environment is a relative concept since it differs from country to country or even state to state. For example, demand for sarees may be high in India, whereas it is almost nil in France.

**V. Partially Controllable**- The environment within the business organization can be controlled to some extent whereas the environment outside an organization is not under our control.

**2. Explain the need and importance of business environment?**

**Ans- The need and importance of business environment are as follows-**

**I.It enables the firm to identify opportunities-** Environmental understanding enables an enterprise to identify business opportunities. Early to identification of opportunities helps the enterprise to be the first to exploit them.

**II. It helps the firm to identify threats and early warning signals-** Environmental awareness can help managers to identify various threats and to take steps in time to face them.

**III. It helps in tapping useful resources**- Environment scanning helps the producers to collect in advance the required raw materials to meet the changes in demand.

**IV. It helps in improving performance-** The business enterprise that continuously monitor their environment and adopt suitable business practices can improve their present and future performance.

**V. It helps in coping with rapid changes-** All types of enterprises are facing rapid changes in their environment. In order to effectively cope with these changes; managers must understand the environment and develop suitable courses of action.

**3. Discuss in detail about the different components of business environment?**

**Ans- The different components of business environment are as follows-**

I. Economic Environment:- Economic environment refers to all factors which have an economic impact on business. It includes tax and interest rates, insurance, foreign Investments, Corporate profits, Inflation rates, employment rates, foreign trade balances, liberlisation, privatization, Disinvestment etc. Economic environment has three aspect such as economic conditions, economic policies and economic system of the country.

II. Social environment:- Social environment means social and cultural factors that affect business directly or indirectly. These social factors include attitude of people cultural heritage, life style, customs and belief of people, literacy rate, birth and death rat e, education system demographic distribution etc . Various social problems like concern for environment, demand for socially responsible making, need for safety in product etc also affect in business. The business should adapt a business strategy which should be suitable to socio cultural environment.

III. Technological Environment- Changes in technology have rendered several traditional production processes obsolete. Several new products with added value series have replaced conventional products. Introduction of digital cameras, Internet banking, ATM’s, Phone banking, BPO are some of example for this. The preferences and likings of consumers change with technological advancement. Luxuries of yesterday become the necessities of today. Every business organization should made use of the advantage of technological innovations with a view to improve quality of product.

IV. Political Environment- Political and government environment means attitude of government towards business. Stability of government and policies of ruling party has great impact on business. Political ideology ofgovt. ,philosophy of political parties, relation of state and central govt. are the elements of political environment. Governments can restrict or prohibit certain business activities. So the working of the business should be in tune with the thinking of political parties and voters.

V. Legal Environment- Legal environment involves the legislation passed by the parliaments and state legislature. Legal environment can be defined as the legal enactments made by the government with a view to control the business. In India business is regulated with the help of the following legislation (a) Trade Mark Act 1969, (b) Essential commodities Act -1955 (c) Companies Act 1956 (2012) (d) Industrial dispute at -1947 (e) Consumer protection Act – 1986 (f) Factories Act -1948 (g) Industrial dispute Act -1947 (h)workmen Compensation Act 1923 etc.

OR

1. Economic environment-

• It refers to those factors having an economic impact on business.

• For example, availability of long term loans at low interest rates would result in increased sale of cars and houses.

• Tax rates, interest rates, insurance, foreign investments, corporate profits, inflation rates, employment rates, foreign trade balances, liberalization, privatization, disinvestment , stock market indices, public debt ,Role of private and public sector, GNP, per capita income, BoP etc

• It has three aspects- economic conditions, economic policies and economic systems.

2. Social Environment

• Social and cultural factors that affect business directly or indirectly are known as Social environmental factors.

• Attitude of people, culture heritage, life style, customs and belief of people, literacy rate, birth and death rate, education system, demographic distribution, life expectancy, composition of family etc For example, the health and fitness awareness among the people created demand for organic food, diet drinks and food supplements.

3. Technological environment

• Forces relating to scientific improvements and innovations are considered as technological environment.

• New ways of producing goods and services.

• New methods and techniques of operating a business.

• Several new products with added value services have replaced conventional products.

• Introduction of digital cameras, internet banking, ATM, BPO, Mobile banking, laser, robotics, biotechnology, food preservatives, medicines etc

4. Political environment

• Political and government environment means, attitude of government towards business.

• Stability of Government, policies of ruling party, philosophy of political parties, ideology of government, relation of state and central government, attitude of Govt. officials, etc

5. Legal environment

• Legislations passed in the Parliament or State Legislature.

• Legal enactments made by the Government with a view to control the business.

• Trade Mark Act 1969, Essential Commodities Act 1955, Companies Act 1956 (2012), Industries Dispute Act 1947, Consumer Protection Act 1956, Factories Act 1948, Workmen Compensation Act 1923, Competition Act 2002 etc

**4. Explain some strategies that are available to manager to deal with changing business environment?**

**Ans- Some strategies that are available to manager to deal with changing business environment are as follows-**

**I. Anticipating and Adapting-** The business managers should continuously anticipate and monitor changes in the environment and takes necessary steps before the environment becomes unfavourable.

**II. Competitive Advertising-** In order to meet competition business firm may resort to competitive advertising.

**III. Upgradation of Technology-** Use of latest technology can provide a competitive edge to their users.

**IV. Meger and Amlgamation-** Two or more competing firms may merge together or one firm may acquire another firm to increase competitive advantage.

**V. Diversification-** Many companies undertake diversification programmes to strengthen their position in the market.

**5. Mention the economic reforms that have been initiated by the government since 1921.**

**Ans- The economic reforms that have been initiated by the government since 1921 are as follows-**

I. Introduction of liberalization policy for the growth of industrial units. Industrial licensing have been abolished for all industrial processs except for a short list of industrial.

II. Automatic Clearance for foreign technology agreements highly priority industries.

III. Operating of balancing power, oil, insurance and communication sectors to private enterprise which are earlier reserved for public sector.

IV. Removal of restrictions on import and export of goods and services.

V. Tax concession and cheaper bank loans to export oriented industries.

VI. Special package of incentives for small scale industrial units.

**6. What is liberalization?**

**Ans-** Liberlisation means liberating the economy from unnecessary controls and regulations. It means the end of license . The old policy of permit, licenses, and quotas discouraged private enterprises. The new policy allowed industries to expand their capacity freely as per the need of the market.

Its features are –

I. Abolition of licensing requirement in most of the industries except a short list.

II. Freedom in deciding the scale of business activities

III. Removal of restrictions on the movement of goods and services.

IV. Freedom in the fixation of prices of goods and services.

V. Reduction of tax rates.

VI. Simplification of procedures for imports and exports.

**7. Explain the impacts of government policy changes on business and industry.**

**Ans- The impacts of government policy changes on business and industry are as follows-**

**I. Increasing competition:** Competition for Indian firms has increased especially in service industries like telecommunications, airlines, banking, insurance etc.

**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:** The rapidly changing technological environment creates tough challenges before smaller firms.

**IV. Necessity for change:** After 1991 the market forces have become dynamic as a result of which the enterprises have to continuously modify 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.

**8. How is business influenced by the political and legal environment?  
Ans-** Business influenced by the political and legal environment are as follows-

I. Political Environment- Political and government environment means attitude of government towards business. Stability of government and policies of ruling party has great impact on business. Political ideology ofgovt. ,philosophy of political parties, relation of state and central govt. are the elements of political environment. Governments can restrict or prohibit certain business activities. So the working of the business should be in tune with the thinking of political parties and voters.

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**9. How does social and technological environment influence the working of business.**

**Ans- Social and technological environment influence the working of business are as follows-**

Social environment:- Social environment means social and cultural factors that affect business directly or indirectly. These social factors include attitude of people cultural heritage, life style, customs and belief of people, literacy rate, birth and death rat e, education system demographic distribution etc . Various social problems like concern for environment, demand for socially responsible making, need for safety in product etc also affect in business. The business should adapt a business strategy which should be suitable to socio cultural environment.

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**10. Write three salient features of new industrial policy.**

**Ans-The three salient features of new industrial policy are**

I. Reduce the number of industries to six which require compulsory licensing.

II. De-reserved many industries which where earlier reserved for the public sector.

III. Disinvestment of many public sector companies.

IV. 100% foreign direct investment in many activities.

V. Setup foreign investment promotion board.

**11. Write three effects of political environment.**

**Ans- The three effects of political environment are as follows-**

I. Demand for reservation of job for schedule cast and schedule tribe in private enterprise.

II. Internet boosting IT industries in India has been increasing on the part of government.

III. Attitude of government change regarding international relationship and government inter country investment.

**12. What is micro environment? Explain the four components of its.**

**Ans-** Micro environment is the environment which is close to business and affects its capacity to work. It consists of Suppliers, Customers, Market Intermediaries, Competitors and Public.

I. Suppliers.

They are the persons who supply raw material and required components to the company. They must be reliable and business must have multiple suppliers i.e. they should not depend upon only one supplier.

II. Customers.

Customers are regarded as the king of the market. Success of every business depends upon the level of their customers’ satisfaction. The types of customers are:

Wholesalers

Retailers

Industries

Government and other institutions

Foreigners

III. Market Intermediaries.

They work as a link between business and final customers. The types of market intermediaries are:

Middleman

Marketing Agencies.

Financial Intermediaries

Physical Intermediaries

IV. Competitors

Every move of the competitors affects the business. Business has to adjust itself according to the strategies of the competitors.

V. Public

Any group who has actual interest in business enterprise is term as public e.g. media and local public. They may be the users or non-users of the products.