

QUESTIONS FOR PRACTICE

1. Which of the following is an example of social environment?
 - a. Money supply in the economy
 - b. Consumer Protection Act
 - c. The Constitution of the country
 - d. Composition of family
 2. External environment trends and changes will provide _____
 - a. Less Competition
 - b. Goodwill
 - c. Profits
 - d. Threats
 3. Rise in GDP lead to rise in _____
 - a. Cost of Production
 - b. Increase in new taxes
 - c. None of these
 - d. Disposable income of people
 4. What will be the affect of increase in tax by the government?
 - a. Creates fear in the minds of investors
 - b. Increase in cost of production
 - c. None of these
 - d. Increase in profit margin
 5. Why is business environment called dynamic?
 6. Business environment includes both specific and general forces. List any four general forces.
 7. The understanding of business environment helps the managers to identify the “Threats”. What is meant by “Threats” here?
 8. Easy finance facilities on cars by different financiers and banks have considerably increased the demand for cars. Identify the type of environment highlighted in the given statement.
 9. Explain any two impacts government policy changes on business and industry.
 10. What is meant by business environment? Explain dynamic nature and uncertainty as features of business environment.
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11. What is meant by 'business environment'? Explain any five features of business environment.
12. "Social environment of business is important for a business enterprise". Explain.
13. The Indian corporate sector has come face-to-face with several challenges due government policy changes in business and industry. Explain any five such changes.
14. How does the understanding of business environment help management following
 - i. Identification of threats and early warning signals
 - ii. Identify threats and early warning signals
 - iii. Assist in planning and policy formulation
 - iv. Improving performance
 - v. Tapping useful resources
15. 'Singhal Printers Limited' is a famous company of Printing Industry. Its main business is to print the Greeting Cards of Deepavali, Eid, Christmas, Gurburb and other festivals. The Greeting Cards of this company are well known throughout India. The Government made such changes in its Tax Policy recently which have had a positive impact on the Printing Industry. One negative factor noticed with regard to this Industry is that now people have started preferring internet and mobile to Greeting Cards on festivals and other occasions. Similarly, it has also been noticed that in Printing Industry only those companies are earning profits which have adopted modern technology. Recently, the new Central Government of the country decided to establish Industrial Estate in the name of Printing Club' for the development of this industry. Also a decision to simplify the process of Industrial Disputes of Printing Industry in the country was taken. The Managing Director of 'Singhal Printers Limited' made a through study of the business environment. He arrived at the conclusion that the business environment is a group of not one but several factors. All these factors affect business in some or the other form. Business has no control over them. Business has to mould itself in accordance with them. The companies which follow this principle stay in the market for a long time and the remaining ones disappear from the market gradually.
 - a. Identify the different dimensions of business environment described in the paragraphs given above by quoting the relevant lines.
 - b. Which particular feature business environment is being hinted/referred to here?

Answer Key

1. d. Composition of family

Explanation: Social environment refers to the broad characteristics of the society in which a business enterprise operates. Composition of the family comes under social environment, the other options are a reference to legal environment and economic environment.

2. d. Threats

Explanation: Business environment is the sum total of all individuals, institutions and other forces that are outside the control of a business enterprise and it may affect its performance. Thus while analysing through SWOT analysis, trends and changes comes under threats.

3. d. Disposable income of people

Explanation: While observing economic environment, the gross domestic product increases the disposable income of people of a country will also increase and it will increase demand for products.

4. b. Increase in cost of production

Explanation: Increase in the tax rate means increase in tax on a specific commodity. Such a tax may raise the price of the commodity to the consumer and reduce the net price received by the producer. Thus being an expense it will raise the cost of production.

5. Business environment keeps on changing. It is not static and Its components are highly flexible, hence Business Environment is called dynamic e.g. technological improvements, increase in competition, etc.

6. General forces of business environment are:

- i. Political
- ii. Social
- iii. Legal
- iv. Technological

7. Threats means anything that could cause damage to your organization, venture, or product. This could include anything from other companies (who might intrude on your market), to supply shortages (which might prevent you from manufacturing a product). Threats are negative, and external.

8. **Economic environment.** It includes long term and short term interest rates, inflation rates, changes in disposable income of people etc.

9. The two impacts of government policy changes on business and industry are:

- i. **Increasing competition:** As a result of changes in the rules of industrial licensing, entry of foreign firms creates competition for Indian firms, especially in service

industries like telecommunication, airlines, banking, insurance, etc which were earlier placed in the public sector.

- ii. **More demanding customers:** Government policies leading to economic liberalisation allow consumers to become well-informed, increase their purchasing power (through rising incomes) and change their lifestyle, which makes them more demanding about quality and value-driven products/services.

10. Business environment is the sum total of all individuals, institutions and other forces like customers, competitors, suppliers, distributors. Business Environment means a collection of all individuals, entities and other factors, which may or may not be under the control of the organisation, but can affect its performance, profitability, growth and even survival. Every business organisation operates in a distinctive environment, as it cannot exist in isolation. Such an environment influence business and also gets affected by its activities.

Dynamic nature: Business environment is dynamic as it keeps on changing. It is not static and its components are highly flexible, e.g technological improvements, increase in competition, etc.

Uncertainty: Business environment is uncertain as it is difficult to predict future happenings when environment changes are taking place frequently.

11. Business environment is the sum total of all individuals, institutions and other forces like customers, competitors, suppliers, distributors, industry trends, substitutes, regulations, government activities. Social and cultural factors that are outside the control of the business enterprise but may affect its performance. The main features of business environment are:

- i. **Totality of external forces:** Business environment is the sum total of all external forces outside the control of a business.
- ii. **Consists of specific and general forces:** Specific forces are those, which affect the individual enterprises, viz competitors, customers, investors, and suppliers. Whereas general forces have an impact on all business enterprises. The general forces comprise of social, political, legal, economic and technological forces.
- iii. **Uncertainty:** Business environment is largely uncertain, as it is very difficult to predict future happenings, especially when changes takes place at a fast pace.
- iv. **Complexity:** Business environment is complex, as to understand it in totality, e.g. It becomes difficult to know the extent of relative impact of social, economic political. Legal and technological factors on change in demand of a product.

- v. **Dynamic:** Business environment is highly flexible and keep changing. It is not static or rigid that is why it is essential to monitor and scan the business environment continuously.
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12. A business is a part of the society in which it operates. The buying and consumption habits of the people, their languages, customs, tastes and preferences etc., are the factors that influence the business. Businessmen should be alert enough to visualize the factors that directly or indirectly affect their organization. The social environment consists of the sum total of a society's beliefs, customs, practices and behaviors. It is, to a large extent, an artificial construct that can be contrasted with the natural environment in which we live. Cooperation between business and society will see business boom and will help growth of professional managers. The failure of any business organization in adapting to changes in the social environment will lead to dissatisfaction amongst its customers and rejection of its products. This shift of demand can even endanger the very survival of a business. For example, equal pay for male and female workers, demand for reservation in jobs for minorities and women etc.
13. Following challenges were faced by the business enterprises
- i. **Rapidly changing Technological environment:** Increased competition force the firms to develop new ways to survive and grow in the market. Thus, there is a need to adopt new technologies in order to survive in the long-run.
 - ii. **Need for developing human resources:** The new market conditions require people with higher competence and greater commitment. Hence, there is a need of developing human resources.
 - iii. **Market-orientation:** The business enterprises start focusing on market-oriented techniques rather than production-oriented techniques.
 - iv. **Increasing Competition:** With the opening of the economy, globalisation and entry of foreign firms in the country the competition for domestic players has increased as they have to compete with them. MNCs are at an advantage due to large financial resources, technological advancement and branded goods, thus posing a serious challenge and threat to domestic players.
 - v. **Necessity for change** After 1991, the market forces have become turbulent. As a result, business enterprises have to continuously modify their operations.
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14. In the present day of competitive market, it is essential for a business to remain alert and aware of its environment, because of the following reasons:
- i. **Identify opportunities & getting the first mover advantage:** Awareness of environment helps an enterprise to identify the opportunities prevailing in the market. They can make strategies to capitalise such opportunities at the earliest.

e.g. Maruti Udyog became the leader in the small car market because it was the first company who recognised the need for small cars in the environment.

- ii. **Identify threats and early warning signals:** Environmental awareness helps an enterprise in identifying possible threats in the future, so that the enterprise can take timely measures to minimise the threat and its adverse effects, if any, e.g; when the new firms entered the mid-segment cars (threat), Maruti Udyog increased the production of its Esteem car. Increase in production enabled the company to make faster delivery. As a result, the company captured a substantial share of the market and became a leader in this segment.
- iii. **Assist in planning and policy formulation:** Environment awareness helps a business unit to identify opportunities and threats in the market. These serve as a basis for planning future course of action and making policies for the same.
- iv. **Improving performance:** An enterprise that monitors its environment continuously is in a position to improve not only its present performance but also improve its future performance. This ensures success of the business in the long-run.
- v. **Tapping useful resources:** A business environment is an open system which gets resources such as capital, labour, machines, materials, etc from the environment, converts them into goods and services desired by the customers and then supplies its output to the environment. Thus, a business firm depends on its external environment for tapping various resources and for the sale of its output.

15. The dimensions are as follows:

- i. **Economic Environment:** Economic Environment consists of factors like inflation rates, interest rates, consumers' incomes, economic policies, market conditions etc. which affect the performance of a business firm.
 - a. **Interest Rates:** Changes in the interest rates greatly affect the demand for goods and services. For example, low long term rates on home loans are beneficial for banks and consumers both.
 - b. **Consumer Income:** Increase in the incomes of the consumers leads to increase in their purchasing power. Hence, demand for goods and services rises.
 - c. **Inflation Rate:** High inflation rate increases the cost of production and hence puts constraints on firms.
- ii. **Social Environment:** Social environment implies traditions, literacy rates, educational levels, values, customs, lifestyle, demographic distribution and other characteristics of the society in which the organization exists. Traditions mean customs or social practices that have passed on from one generation to another. Values mean standards that a society holds in high esteem e.g., freedom, social

justice, equal opportunities etc. which are cherished by us all. Changes in social environment affect the demand for a product, supply of labour and capital. If a business fails to adapt to such changes, its survival becomes difficult. Cooperation between business and society can make business boom (WIN-WIN) whereas confrontation between them may lead to disaster (LOSS-LOSS). Cooperation between business and society will see business boom and will help in the growth of professional managers as well as the country whereas failure of any business organization in adapting itself to changes in the social environment will lead to dissatisfaction amongst its customers and rejection)of its products. This shift of demand can ever endanger the very survival of that business.

- iii. **Technological Environment:** The forces related to scientific improvements and innovations for improving quality of goods and services and new techniques for operating the business, are all part of technological environment. It includes new approaches, new procedures and new equipments to transform inputs into outputs. It facilitates an organization's efficiency and effectiveness so that it can try to remain at par with the best in the world. Technological changes provide opportunities for some enterprises and become threats for some others. For example, digital watches killed the business prospects of traditional watches, TV has adversely affected radio and cinema industry, mobile phones have taken over the market from landline phones.
- iv. **Political Environment:** Political Environment consists of forces such as political stability and peace in the country and attitude of the ruling party and its representatives towards business. These forces significantly affect the functioning of business. Whenever there is political stability, it increases the confidence of businessmen whereas political instability, adversely affects the business. For example even after opening of our economy in 1991, many foreign companies found it very difficult to enter the Indian market because of 'Bureaucratic Red Tape'. As a result, many of these companies got discouraged from doing business in India.
- v. **Legal Environment:** Legal environment consists of rules and regulations, framed by the Parliament, under which business must operate. To exist and grow, business is required to follow all the rules and regulations that constitute this environment. Legal Environment includes different laws passed by the government, administrative orders issued by government authorities, courts and also various 'recommendation made by various commissions agencies at three levels of the government – central, state, local. It is very essential for the management of any business firm to obey these rules and regulations for smooth functioning of the business.

The particular feature of business environment referred to here is Uncertainty:

It is very difficult to predict the changes of Business Environment. As environment is changing very fast for example in IT, fashion industry frequent and fast changes are taking place.
