

3 Business Environment

Fastrack® Revision

- **Meaning of 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 effect its performance.

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Business environment is the totality of all external forces that are affecting the performance of business.

► Features of Business Environment

- **Totality of External Forces:** Business environment is the sum total of all the external forces and factors that are influences the working of a business firm.
- **Specific and General Forces:** Business environment includes both specific and general forces. Specific forces include investors, competitors, customers, etc., who influence business firm directly while general forces include social, political, economic, legal and technological conditions, which affect a business firm indirectly.
- **Inter-relatedness:** Different elements or parts of a business environment are closely inter-related. For example, increased awareness for healthcare has raised the demand for healthy oil free food and healthy lifestyle.
- **Dynamic Nature:** Business environment is dynamic in nature i.e., it keeps on changing with the change in technology, shift in consumer preferences, entry of new competition in the market, etc.
- **Uncertainty:** Business environment is largely uncertain, as it is difficult to predict the future happenings such as, frequent changes in the field of technology and fashion industry.
- **Complexity:** Business environment is a complex phenomenon, which is easier to understand in parts, but it is difficult to understand in totality. Since the business environment consists of various inter-related and dynamic forces, it is difficult to understand the constituents of a given environment.
- **Relativity:** Business environment is a relative concept whose impact differs from country-to-country, region-to-region and firm-to-firm.

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Business environment is different from different business firms according to the conditions of business.

► Importance of Business Environment

- **First Mover Advantage:** It enables the firm to identify opportunities and getting the first mover advantage instead of losing them to its competitors.
- **Warning Signals:** It helps the firm to identify threats and early warning signals which are likely to hinder a firm's performance and take timely actions.
- **Tapping Useful Resources:** It helps in tapping useful resources by designing the policies that allow it to get the resources. It needs so that it can convert resources into outputs that the environment desires.
- **Coping with Rapid Changes:** It helps in coping with rapid changes as the managers are able to understand and examine the environment and develop appropriate courses of action.
- **Planning and Policy Formulation:** It helps in assisting, in planning and policy formulation as its understanding and analysis can be the basis for deciding the future course of action or decision-making.
- **Helps in Improving Performance:** It helps in improving performance of an enterprise through continuous monitoring of the environment and adopting suitable business practices which help to improve both their present and future performance.

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Continuous monitoring of business environment enables the management to identify opportunities and getting the first mover advantage.

► Dimensions of Business Environment

- **Economic Environment:** It makes immediate and direct impact on a business. Rate of interest, inflation rate, change in disposable income of people, monetary policy, stock market indices, etc. are some economic factors, which could affect business firms. Increase or decrease of the economic factors result in opportunities or constraints on a business enterprise.
- **Social Environment:** Business environment includes various social forces or activities such as customs, beliefs, literacy rate, educational levels, lifestyle, values, etc. Social trends present various opportunities and threats to business enterprise. For example, the celebration of Diwali, Eid and Christmas in India provide financial opportunities for confectionery manufacturers, garment businesses and many other related businesses.

- **Technological Environment:** It includes forces relating to scientific improvements and innovations, which provide new ways of producing goods and services and new methods and techniques of operating business. 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, demand for LED smart HD TVs instead of LCD TVs, use of Artificial Intelligence (AI) in various companies, etc.
- **Political Environment:** It includes political conditions such as general stability and peace in the country and the attitude of the elected government representatives hold towards businesses. Political stability builds confidence among business community while political instability and bad law and order situation may bring uncertainty in business activities. For example, Bengaluru is called as the Silicon Valley of India due to the favourable political conditions provided by the State Government to the IT industries.

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Political stability builds up confidence among business people to invest in the long-term projects for the growth of the economy.

- **Legal Environment:** It includes various laws and legislations passed by the government, administrative orders, court judgements, decisions of various commissions and agencies at every level of the government centre, state or local, etc. Businessmen have to act according to various legislations and their knowledge is very necessary. For example, advertisement of alcoholic beverages is prohibited.
- **Demonetisation**
 - Demonetisation is the act of stripping or discontinuing a currency unit of its status as legal. It usually occurs when there is a change in currency by the government.

- India faced its first demonetisation in 1946 and second one in 1978. On 8th November, 2016, India witnessed its third phase of demonetisation, wherein Prime Minister Narendra Modi banned ₹ 500 and ₹ 1,000 currency notes with immediate effect.

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- The RBI, on 19 May 2023 to withdraw ₹ 2000 note from circulation, however the bank notes will continued to be a legal tender.

► Types of Demonetisation

- **Total Demonetisation:** In this type of demonetisation, the complete range of present currency units are replaced by a totally new range of currency units.
- **Partial Demonetisation:** In this type of demonetisation, only some part of currency units are replaced by new currency units and remaining other currency stay in circulation.

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- Demonetisation is the act of removing a currency unit of its status as legal tender.
- The objectives of demonetisation in India to restrict and reduce the supply of money, used for anti-social activities.

► Features of Demonetisation

- Demonetisation is viewed as a tax administration measure. Those with black money had to declare their unaccounted wealth and pay taxes at a penalty rate.
- Demonetisation is also interpreted as a shift on the part of the government indicating that tax evasion will no longer be tolerated or accepted.
- Demonetisation also led to tax administration channelling savings into the formal financial system.
- Another feature of demonetisation is to create a less cash or cash like economy i.e., channelling more savings through the formal financial system and improving tax compliance.

MNEMONICS

- 1. Concept:** Characteristics of Business Environment
Mnemonics: Did Umesh Submit his ITR Copy.
Interpretation:
D : Dynamic nature
U : Uncertainty

S : Specific and general forces
I : Inter-relatedness
T : Totality of external forces
R : Relativity
C : Complexity



Practice Exercise



Multiple Choice Questions

- Q1. "Even though the political conditions vary from country-to-country, they impact the sentiment of an investor in the business, if the instability of the political conditions cause uncertainty and make it difficult for him to predict the future." Which feature of business environment is being highlighted in the above statement?
 - a. Specific and general forces
 - b. Dynamic nature
 - c. Relativity
 - d. All of the above
- Q2. Which of the following is an element of political environment? (CBSE SQP 2021, Term-1)
 - a. Existing structure of the economy in terms of relative role of private and public sectors.
 - b. Rise in the disposable income of people due to increase in the gross domestic product of a country.
 - c. Legislations passed by the government authorities.
 - d. Attitude of the elected government representatives towards business.

- Q 3.** Which characteristic of the business environment is highlighted when changes are taking place too frequently and it becomes difficult to predict the future? (CBSE SQP 2022-23)
- Uncertainty
 - Complexity
 - Inter-relatedness
 - Relativity
- Q 4.** In a recent ruling, the Supreme Court of India has ordered an immediate stop on commercial activities in a 500 metre radius of the Taj Mahal and asked Agra Development Authority to ensure compliance of its directive. Which dimension of business environment is reflected here? (CBSE 2023)
- Social
 - Technological
 - Legal
 - Political
- Q 5.** Airlines will be able to offer the benefit of lower pricing to customers on sectors/routes due to the decision of the Civil Aviation Ministry to remove price caps from August 31, 2022. This can help an airline to do better performance, if they take early decisions regarding future courses of action after understanding and doing analysis. Which importance of business environment and its understanding by managers is not highlighted above? (CBSE SQP 2022-23)
- It helps in improving performance.
 - It helps in assisting in planning and policy formulation.
 - It helps in tapping useful resources.
 - It enables a firm to identify opportunities and get first mover advantage.
- Q 6.** "Increase in cost of production due to increase in minimum wage rate by government" is an example of:
- legal environment
 - political environment
 - social environment
 - economic environment
- Q 7.** Several initiatives have been undertaken by the Government of India to encourage domestic manufacturing and export of defence equipments. 'Make In India' in Defence, was one such scheme launched by the Government to encourage companies across the world to manufacture defence products in India.
- To which dimension of business environment does the above case relates to? (CBSE 2021, Term-1)
- Economic environment
 - Legal environment
 - Political environment
 - Social environment
- Q 8.** Scanning of the business environment helps to identify:
- opportunities
 - threats
 - Both a. and b.
 - None of these
- Q 9.** Which one of the following is a part of economic environment?
- Customs and traditions
 - Technological changes
 - Easy finance schemes
 - None of these
- Q 10.** 'Cartoony Planet' is a well-known indoor playground for organising parties for children in Noida. It has many play stations and it organises various activities for the kids to enjoy. Looking at the increasing number of children visiting 'Cartoony Planet', a new indoor playground in the name of 'Tiny-Tots House' came up with advanced swings, play stations and entertainment activities near 'Cartoony Planet'.
- To compete with the newly opened indoor playground, 'Cartoony Planet' also added some advanced swings and entertainment activities to attract more children.
- The above information highlights one of the features of business environment. Identify the feature from the following: (CBSE 2023)
- Uncertainty
 - Dynamic nature
 - Relativity
 - Inter-relatedness
- Q 11.** These days consumers are making eco-friendly and healthy choices and are saying no to all things made of plastic and replacing it with stainless steel and ceramic containers, thus forcing business to change as well. Identify the feature of business environment highlighted above. (CBSE 2023)
- Totality of external sources
 - Specific and general forces
 - Inter-relatedness
 - Dynamic nature
- Q 12.** Which of the following best indicates the importance of business environment?
- Identification
 - Improvement in performance
 - Coping with rapid changes
 - All of the above
- Q 13.** "Increasing trend towards e-commerce" is an example of:
- economic environment
 - technological environment
 - social environment
 - political environment
- Q 14.** "Introduction of mobile phones have adversely affected the business of watches and cameras." Which dimension of business environment is related with the given case?
- Political environment
 - Social environment
 - Technological environment
 - None of the above
- Q 15.** "The nature of the relationship of our country with foreign countries", is a major element of which of the following components of the business environment?
- Social environment
 - Legal environment
 - Political environment
 - Economic environment
- Q 16.** 'Dolma' and 'Una' were gardeners with decades of hands-on experience. They were the first ones to recognise the need of indoor gardens specially for plant-lovers living in apartments. They took advantage of this opportunity and decided to offer

beautiful designing ideas for indoor gardening through their innovative venture 'My Space'.

'My Space' offered creative ideas like 'Garden Wall', 'Hanging Garden', 'Window Garden', 'Book-shelf Garden' and many more. Since there were no competitors they soon became the market leaders in this field.

From the following points, identify the importance of business environment highlighted above.

(CBSE 2023)

- Business environment helps the firm to identify threats and early warning signals.
- Business environment helps in tapping useful resources.
- Business environment enables the firm to identify opportunities and getting the first mover advantage.
- Business environment helps in assisting in planning and policy formulation.

Q 17. Business environment is said to be uncertain as:

(CBSE 2021, Term-1)

- different element or parts of business environment are closely inter-related.
- it differs from country-to-country.
- it is difficult to predict future happenings especially when environment changes are taking place too frequently.
- it consists of numerous inter-related forces which arise from different sources.

Q 18. Booking of air tickets through internet is an example of:

- technological environment
- economic environment
- political environment
- social environment

Q 19. The Government of India had demonetised the bank notes on two prior occasions before 8th November, 2016:

- 1946, 1978
- 1968, 1992
- 1954, 1988
- 1958, 1982

Q 20. Match the 'Economic Area' in Column I with the 'Impact of Demonetisation had on it' as given in Column II.

Column I	Column II
A. Public sector wealth	(i) Declined
B. Private wealth	(ii) Increased
C. Digitisation	(iii) No effect

- | | | | | | |
|----------|-------|------|----------|------|-------|
| A | B | C | A | B | C |
| a. (ii) | (iii) | (i) | b. (iii) | (ii) | (i) |
| c. (iii) | (i) | (ii) | d. (ii) | (i) | (iii) |

Q 21. The Government of India made an announcement regarding demonetisation of the Indian economy on 8th November 2016 with profound implications for it. The process which put restrictions on convertibility of domestic money and bank deposits was meant to

create a less-cash economy. One argument against the cash-lite economy is that: (CBSE SQP 2022-23)

- internet connectivity is a pre-requisite
- more people will be introduced into the formal economy
- financial saving will increase
- tax evasion will be reduced.

Q 22. The aim of demonetisation was not to

(CBSE SQP 2023-24)

- curb corruption
- reduce the prices of real estate
- withhold the accumulation of black money generated by undeclared income
- counterfelt the use of high denomination notes for illegal activities

Q 23. 'Pace' is a reputed Chartered Accountant firm which renders services to big MNC's. The Chartered Accountants of the firm are required to travel to Delhi and NCR for which they use company's cars. The firm decided to convert its petrol cars to electric cars in order to improve the quality of life of people. Identify the dimensions of business environment:

(CBSE SQP 2023-24)

- Political and legal environment
- Legal and social environment
- Technological and political environment
- Social and technological environment

Q 24. Government of India demonetised notes of ₹ 500 and ₹ 1,000 on 8th November, 2016. Demonetisation means: (CBSE 2023)

- they ceased to be legal tender except for a few specified purposes.
- these notes could not be banked but could be freely used otherwise.
- these notes could be converted into gold coins from Reserve Bank of India.
- these notes could be used for household purposes but not for business purposes.

Q 25. 'Digilocker' is a flagship initiative of 'Ministry of Electronics and IT', Government of India. It aims at digital empowerment of the citizens by providing access to authentic digital documents such as academic certificates issued by different examination boards, driving licenses, vehicle registrations, etc., in a digital format.

The above para discusses a few dimensions of business environment. Identify the correct dimensions from the following: (CBSE 2023)

- Economic environment and technological environment
- Social environment and economic environment
- Social environment and political environment
- Political environment and technological environment

Q 26.



Identify the dimensions of the business environment illustrated by the picture given above in which Sapna who has joined the workforce recently is working on an accounting software. (CBSE SQP 2022-23)

- a. Technological and social
- b. Technological and political
- c. Political and economic
- d. Social and legal

Q 27. Aiming to revive Jammu and Kashmir's attraction as a top location for film shooting the J & K film policy, 2021 offers a host of incentives to the film-makers, such as subsidies and low long term interest rates, for films with patriotic and certain other themes shot in J & K, for giving work opportunities to local artistes, etc. This will have an impact on business enterprises in the state.

Which component of business environment is highlighted above?

- a. Specific and general forces
- b. Technological environment
- c. Economic environment
- d. Totality of external forces

Q 28. Which of the following is not a part of social environment of business? (CBSE 2023)

- a. Life expectancy
- b. Education system and literacy rates
- c. Consumption habits
- d. Money supply in the economy

Q 29. With the presence of women in the workforce, there has been a shift towards formal wear, increased demand of electronic gadgets and increase in demand of cosmetics.

The related dimension of business environment referred in the above lines is: (CBSE SQP 2023-24)

- a. Technological environment
- b. Social environment
- c. Political environment
- d. Economic environment

Q 30. Mr Vivek is working as the General Manager of Oshin Hotels Ltd. Mr Vivek observed that Government was taking a special interest in the tourism industry as this sector is an important source of foreign exchange and employment promotion. On the basis of this news, the company decided to set up hotels at several tourist places. Oshin Hotels Ltd. established 50 hotels before other companies considered this issue. Very soon, this brand Oshin Hotels Ltd. became well known in the market. Identify the importance of business environment described here.

(CBSE SQP 2023-24)

- a. It enables the firm to identify opportunities and getting the first mover advantage.
- b. It helps the firm to identify threats and early warning signals.
- c. It helps in tapping useful resources.
- d. It helps in improving performance.

Q 31. Statement I: Political factors play a major role in shaping the environment, in which business firm operate.

Statement II: Political stability builds up confidence among the business people to invest in long-term projects.

Choose the correct option from the options given below:

- a. Statement I is true and II is false.
- b. Statement II is true and I is false.
- c. Both the statements are true.
- d. Both the statements are false.

Q 32. Statement I: All the forces of the business environment are within the control of a business firm.

Statement II: The business environment is a source of various resources such as man, machine, money, raw material, power, etc., to a business firm.

Choose the correct option from the options given below:

- a. Statement I is true and II is false.
- b. Statement II is true and I is false.
- c. Both the statements are true.
- d. Both the statements are false.

Q 33. Statement I: Advertisement of alcoholic products is prohibited.

Statement II: This constraint is levied by the economic environment.

Choose the correct option from the options given below:

- a. Statement I is true and II is false.
- b. Statement II is true and I is false.
- c. Both the statements are true.
- d. Both the statements are false.

Q 34. Statement I: Turbulent market conditions, less brand loyalty, division and sub-division of the market are just a few of the images to describe the business environment.

Statement II: The business environment is getting dynamic where changes are taking place at a slow pace.

Choose the correct option from the options given below:

- a. Statement I is true and II is false.
- b. Statement II is true and I is false.
- c. Both the statements are true.
- d. Both the statements are false.



Assertion & Reason Type Questions

Directions (Q. Nos. 35-41): There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below:

- a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
 - b. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
 - c. Assertion (A) is true, but Reason (R) is false.
 - d. Assertion (A) is false, but Reason (R) is true.
- Q 35. Assertion (A):** Government of India announced demonetisation on 8th November, 2016 with profound implication for the Indian economy.
Reason (R): It was done basically to curb corruption, counterfeiting the use of high denomination notes for illegal activities and especially the accumulation of 'Black Money' generated by income that has not been declared to the tax authorities.
- Q 36. Assertion (A):** The demand for sarees is high in India but it is almost non-existent in France.
Reason (R): All elements of business environment are inter-related.
- Q 37. Assertion (A):** Business environment is a complex phenomenon.

Reason (R): It is difficult to understand in parts but easy to grasp in totality.

- Q 38. Assertion (A):** A business enterprise must give equal status and same wages to male and female workers, working at the same level.
Reason (R): This is because understanding of social dimension of business environment is necessary as it determines the standards of conduct that are acceptable to society.
- Q 39. Assertion (A):** ITC hotels planned for new hotels in India after observing the increase in India's share of world tourism.
Reason (R): It studied its business environment and realised that it helped in improving performance.
- Q 40. Assertion (A):** Bajaj Auto made considerable improvements in its two wheelers when Honda and other companies entered the auto industry.
Reason (R): It studied its business environment which helped it to identify such opportunities of making improvements and innovations and thus get the first mover advantage.
- Q 41. Assertion (A):** Increased awareness for healthcare has raised the demand for organic food and roasted snacks.
Reason (R): The different elements of a business environment are closely inter-related.

Answers

1. (d) All of the above
2. (d) Attitude of the elected government representatives towards business.
3. (a) Uncertainty
4. (c) Legal
5. (c) It helps in tapping useful resources.
6. (d) economic environment
7. (c) Political environment
8. (c) Both a. and b.
9. (c) Easy finance schemes
10. (b) Dynamic nature
11. (c) Inter-relatedness
12. (d) All of the above
13. (b) technological environment
14. (c) Technological environment
15. (c) Political environment
16. (c) Business environment enables the firm to identify opportunities and getting the first mover advantage.
17. (c) it is difficult to predict future happenings especially when environment changes are taking place too frequently.
18. (a) technological environment
19. (a) 1946, 1978
20. (c) A-(iii), B-(i), C-(ii)
21. (a) internet connectivity is a pre-requisite
22. (b) reduce the prices of real estate
23. (d) Social and technological environment
24. (a) They ceased to be legal tender except for a few specified purposes.
25. (d) Political environment and technological environment
26. (a) Technological and social
27. (c) Economic environment
28. (d) Money supply in the economy
29. (b) Social environment
30. (a) It enables the firm to identify opportunities and getting the first mover advantage.
31. (c) Both the statements are true.
32. (b) Statement II is true and I is false.
33. (a) Statement I is true and II is false.
34. (a) Statement I is true and II is false.
35. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
36. (b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

37. (c) Assertion (A) is true, but Reason (R) is false.
38. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
39. (b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
40. (b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
41. (c) Assertion (A) is true, but Reason (R) is false.



Case Study Based Questions

Case Study 1

Read the extract given below and answer the questions on the basis of the same:

Rapid Tours Ltd. is a travel agency which books rail tickets on commission basis. It takes two days for the Rapid Tours to get tickets from Railway Reservation Counter and deliver the tickets to the consumers. In the last one year, there has been drastic decrease in its business as most of the consumers have shifted to Satya Tours, (another travel agency) who spotted this weakness of Rapid Tours Ltd. and came up with the option of providing the tickets within 1/2 hour through the use of internet. Moreover, Satya Tours also provides discount and special offers on bookings during festive season.

- Q 1. Which component of business environment is being overlooked by Rapid Tours Ltd.?
- Legal
 - Technological
 - Economic
 - Political
- Q 2. Identify the feature of business environment highlighted in the following statement:
"Change of booking of rail tickets from Railway Reservation Counter to Internet."
- Inter-relatedness
 - Relativity
 - Dynamic nature
 - Totality of external forces
- Q 3. Which dimension of business environment is highlighted in the following statement:
"Satya Tours also provides discount and special offers on bookings during festive season."
- Social
 - Legal
 - Technological
 - Economic
- Q 4. "In the last one year, the use of internet". This line highlight one of the points of importance of business environment. Identify it.
- Identification of opportunities and taking first mover advantage
 - Identification of threats and early warning signals
 - Tapping of useful resources
 - None of the above

Case Study 2

Read the extract given below and answer the questions on the basis of the same:

Amit and Mohit, after finishing their graduation under vocational stream, decided to start their own travel agency which will book rail tickets and air tickets on commission basis. They also thought of providing tickets within ten minutes through the use of internet. They discussed the idea with Professor Mr Kashyap who liked the idea and suggested them to first analyse the business environment which consists of investors, competitors and other forces like social, political, etc. that may affect their business directly or indirectly. He further told them about the technological improvements and shifts in consumer preferences that were taking place and hence they should be aware of the environmental trends and changes which may hinder their business performance. He emphasised on making plans keeping in mind the threat posed by the competitors, so that they can deal with the situation effectively. This alignment of business operations with the business environment will result in better performance.

- Q 1. Identify the component of business environment highlighted in the above paragraph.
- Social
 - Economic
 - Technological
 - Legal
- Q 2. "They discussed the idea with their Professor Mr Kashyap who liked the idea and suggested them to first analyse the business environment which consists of investors, competitors and other forces like social, political, etc. that may affect their business directly or indirectly." Identify the feature of business environment highlighted in these lines.
- Specific and general forces
 - Relativity
 - Inter-relatedness
 - Dynamic nature
- Q 3. "He further told them about the technological improvements and shifts in consumer preferences that were taking place and hence they should be aware of the environmental trends and changes which may hinder their business performance." Identify which of the following point highlights the importance of business environment in the above lines.
- It helps the firm to cope up with rapid changes.
 - It helps the firm to identify threats and early warning signals.
 - It is dynamic in nature.
 - It helps in improving performance.
- Q 4. "This alignment of business operations with the business environment will result in better performance." Identify which of the following point highlights the importance of business environment in the given lines.

Answers

1. (b) 2. (c) 3. (a) 4. (a)

- a. It helps in planning and policy formulation.
- b. It helps in improving performance.
- c. It helps in tapping useful resources.
- d. It helps in coping up with rapid changes.

Answers

1. (c) 2. (a) 3. (b) 4. (a)

Case Study 3

Read the extract given below and answer the questions on the basis of the same:

The organic food market in India is growing at 25-30% which reflects a clear shift in consumer tastes and preferences. The current growth in the organic food market is driven by multiplicity of factors like rising health consciousness, changing lifestyles, increase in disposable income and growing availability of organic food products in shopping malls, retail outlets and online.

- Q 1. Identify the feature of business environment highlighted in the given line of the extract, "The organic food preferences."**
- a. Dynamic nature b. Uncertainty
 - c. Complexity d. Relativity
- Q 2. Identify the feature of business environment highlighted in the given line of the extract, "The current growth online."**
- a. Inter-relatedness b. Uncertainty
 - c. Complexity d. Relativity
- Q 3. Which component of general forces is highlighted in the phrase, "Rising health consciousness, changing lifestyles"?**
- a. Social b. Economic
 - c. Legal d. Political
- Q 4. Which dimension of business environment is highlighted in the phrase, "Increase in disposable income"?**
- a. Social b. Economic
 - c. Technological d. Legal

Answers

1. (a) 2. (a) 3. (a) 4. (b)

Case Study 4

Read the extract given below and answer the questions on the basis of the same:

The name and taste of Coca-Cola is known to almost each and every individual in India as well as throughout the world. This carbonated soft drink holds the most market share in the soft drink market and got itself a special seat in each and every gathering. The Coca-Cola Company has on occasion introduced other Cola drinks under the Coke name. The most common of these are: Diet Coke, along with others including Caffeine free Coca-Cola, Diet Coke Caffeine free, Coca-Cola Zero Sugar, Coca-Cola Cherry, Coca-Cola Vanilla and the list goes on. It has capitalised on each and every opportunity to market itself effectively and place itself in the

middle of every gathering. The main reason for such an outstanding placement of product goes to the way they have established the connection between every occasion and the need for Coke to be present there, product design and creative advertising.

- Q 1. In the context of the given case, identify one valid importance of business environment.**
- a. Enables a firm to identify opportunities and getting first mover advantage
 - b. Uncertainty
 - c. Delay in action
 - d. Pervasive function
- Q 2. Identify the feature of business environment which the Coca-Cola Company managed to get in their favour.**
- a. Complex
 - b. Specific and general forces
 - c. Futuristic
 - d. Mental exercise
- Q 3. Which business environment did Coca-Cola majorly tap into?**
- a. Technological environment
 - b. Social environment
 - c. Political environment
 - d. Economic environment
- Q 4. Which of the following is not a product of Coca-Cola?**
- a. Diet Coke Caffeine free
 - b. Coca-Cola Zero Sugar
 - c. Coca-Cola Avocado
 - d. Coca-Cola Cherry

Answers

1. (a) 2. (b) 3. (b) 4. (c)

Case Study 5

Read the extract given below and answer the questions on the basis of the same:

As the government has opened up its economy to Multinational Corporations, it has encouraged foreign companies to invest in some sectors of retailing. It has also put in place new rules and regulations for FDI (Foreign Direct Investment) in the retail sector. The FDI policy allows foreign investment through two modes. It may be either under the 'automatic route' or under the 'approval route' where prior approval of the Indian Government is required for any foreign investment in an Indian company which is carrying on retailing business in India. Moreover, the policy also talks about 'Single-brand retailing' like Nike or 'Multi-brand retailing' like Walmart. The argument is that customers can afford to purchase the products of these companies as their income is rising gradually. It will increase research and innovations in the retail sector which will provide new ways of producing goods as well as increase the variety of goods in the market. This will eventually improve the quality of life.

- Q 1. "As the government has opened up its economy to Multinational Corporations, it has encouraged foreign companies to invest in some sectors of retailing." Identify which dimension of business environment is depicted here.
- Political environment
 - Legal environment
 - Technological environment
 - Economic environment
- Q 2. "Customers can afford to purchase the products of these companies as their income is rising gradually." Identify which dimension of business environment is depicted here.
- Social environment
 - Legal environment
 - Technological environment
 - Economic environment
- Q 3. "It will increase research and innovations in the retail sector." Identify which dimension of business environment is depicted here.
- Social environment
 - Political environment
 - Technological environment
 - Economic environment
- Q 4. "This will eventually improve the quality of life." Identify which dimension of business environment is depicted here.
- Social environment
 - Legal environment
 - Technological environment
 - Economic environment

Answers

1. (a) 2. (d) 3. (c) 4. (a)

Case Study 6

Read the extract given below and answer the questions on the basis of the same:

As a result of the decision by Britain to exit from European Union, new trade agreements will come into force, EU accounts for 35-40% of auto component exports from India. Tata Motors owns Britain's largest car maker Jaguar Land Rover (JLR). It makes 4,75,000 cars a year in the country of which most of them are exported inside the European Union and beyond. JLR estimates that their annual profit could be cut by one billion pounds (\$ 1.47 billion) by the year 2020, an account of Britain's decision to exit from EU.

Q 1. Identify the features of business environment brought forward by Britain's decision to quit EU.

Ans. **Inter-related:** All the elements of business environment are closely inter-related as any change in one of them may necessitate a series of changes in other dimensions as well.

Q 2. Name any two related dimensions of the business environment.

Ans. The related dimensions of the business environment are 'Political and Legal'.



Very Short Answer Type Questions

Q 1. What is meant by business environment?

OR

Give the meaning of the term '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 that may effect its performance.

Q 2. Why the business environment is uncertain?

Ans. Business environment is uncertain as it is very difficult to predict its trend with full accuracy.

Q 3. What is included in legal environment of business? State.

Ans. Legal environment includes various legislations passed by the government, administrative orders issued by government authorities, court judgements and decisions tendered by various commissions and agencies.

Q 4. List any four specific forces.

Ans. Four specific forces are:

- | | |
|---------------------|-------------------|
| (i) Suppliers | (ii) Investors |
| (iii) Customers and | (iv) Competitors. |

Q 5. "It is very difficult to know the influence of a particular force on functioning of the business enterprise." Which feature of business environment is highlighted?

Ans. Business environment is complex.

Q 6. What is included in the technological environment of business? State.

Ans. Technological environment includes scientific improvements, innovations, new methods and techniques of operating a business.

Q 7. Which environment describes advertisement of alcoholic liquor is prohibited?

Ans. Legal environment.

Q 8. What is the meaning of technological environment of Business?

Ans. Technological environment refers to the broad characteristics of technology in which the business enterprise operates.

Q 9. Why is business environment called dynamic?

Ans. Business environment is called dynamic as it keeps on changing.

Q 10. The RBI has reduced the bank rate to face the situation of inflation. Identify the dimension of business environment.

Ans. Economic environment.

Q 11. "Each business is affected by policies of the government." Identify the environment.

Ans. Political environment.

Q 12. Why is said that business environment is complex?

Ans. Business environment is complex as it is a combination of many factors, which are inter-related and inter-dependent and it is very difficult to know relative influence of a particular force on functioning of the business enterprise.

Q 13. Define demonetisation.

Ans. Demonetisation is the process of detaching a currency unit from its status as legal tender in the country.

Q 14. Name different types of demonetisation of currency.

Ans. (i) Total demonetisation.
(ii) Partial demonetisation.

Q 15. State any one feature of demonetisation.

Ans. Tax administration measure.

Q 16. On which date did PM Narendra Modi address the Indian people announcing the demonetisation of ₹ 500 and ₹ 1,000?

Ans. On 8th of November 2016.

Q 17. Which agency shall receive the banned old currency after 30th of December 2016?

Ans. Reserve Bank of India.



Short Answer Type-I Questions

Q 1. 'Gallant' is a well known FMCG (Fast Moving Consumer Goods) company in India. However, for the past few years its profitability is diminishing due to the presence of a new company 'Prakritik'. 'Prakritik' has gradually acquired a reasonable share in a wide variety segments like soaps, shampoos, detergents, dish wash and oral care. One of the key reason is that 'Prakritik' has positioned itself as a natural/ayurvedic brand and this approach has worked well with the Indian consumer. In order to compete with this threat 'Gallant' has acquired a premium ayurvedic brand 'Madhumita' from another group. Moreover, its likely to increase its advertising budget to counter the threat from 'Prakritik'.

In the context of the given case:

(i) Identify the related component of the business environment which has contributed effectively towards the success of Prakritik.

(ii) Also, briefly explain the two ways in which 'Gallant' has responded to the changes in its business environment.

Ans. (i) Social aspect that includes customs, traditions and values is the related component of the business environment which has contributed effectively towards the success of Prakritik.

(ii) The two ways in which 'Gallant' has responded to the changes in its business environment are as follows:

(a) **Acquisition:** Gallant had acquired a premium ayurvedic brand, 'Madhumita' from another group.

(b) **Brand Building:** Company is building its brand by increasing its advertisement campaign.

Q 2. India's retail sector has been undergoing structural changes for the last two decades. On one hand, the 'mall culture' has gradually become a way of life, especially in the metros and mini-metros. On the other hand, there is accelerated growth in e-business as customers also prefer to buy products and services *via* the Internet, telephone and television. However, operating in either of the segments is marked by the presence of strong competitors.

Identify the components of specific forces and general forces being discussed in the above paragraph.

Ans. (i) Components of specific forces discussed in the above paragraph are the 'customers and competitors'.

(ii) Components of general forces discussed in the above paragraph are 'social and technological conditions'.

Q 3. As per the directions issued by the Supreme Court, the government passed an order to ban the sale of tobacco products within the area of 200 metres of all educational institutions as:

(i) its consumption is injurious to health.

(ii) people are becoming more conscious about health and fitness.

Identify the different dimensions of business environment by quoting lines from above paragraph.

Ans. The various dimensions of business environment are:

(i) **Legal Environment:** "As per the directions issued by the Supreme Court."

(ii) **Political Environment:** "The government passed an order to ban the sale of tobacco products within the area of 200 metres of all educational institutions."

(iii) **Social Environment:** "Its consumption is injurious to health and people are becoming more conscious about health and fitness."

Q 4. Has digitalisation affected all the sections of society?

Ans. Digitalisation has not affected all the sections of society. Its affect is brought forward with the help of following points:

(i) **The Poor:** They are largely outside the digital economy. The digitalisation has had no meaning for them.

(ii) **The Less Affluent:** They are becoming part of the digital economy. They are covered under Jan-Dhan Accounts and Rupay Cards.

(iii) **The Affluent:** They are fully conversant with digital transactions.

Q 5. List the three instances of demonetisation of Indian currency.

Ans. The three instances of demonetisation are:

- (i) **On 12/01/1946:** All notes of denominations of ₹ 500 and ₹ 1,000 were demonetised with a time limit of 10 days to exchange demonetised notes. Its purpose was to catch tax evaders.
- (ii) **On 16/01/1978:** All notes of denominations of ₹ 1,000, ₹ 5,000 and ₹ 10,000 were demonetised with a time limit of 3 days to exchange demonetised notes. Its purpose was to catch corrupt leaders and officials in predecessor government.
- (iii) **On 08/11/2016:** All notes of denominations of ₹ 500 and ₹ 1,000 were demonetised with a time limit of 50 days to exchange demonetised notes from banks and settle payments against utility services.

Q 6. Name and explain the different types of demonetisation of currency.

Ans. There are two types of demonetisation of currency:

- (i) **Total Demonetisation:** In this type of demonetisation, the complete range of present currency units are replaced by a totally new range of currency units.
- (ii) **Partial Demonetisation:** In this type of demonetisation, only some part of currency units are replaced by new currency units and remaining other currency stay in circulation.

Q 7. "Business environment offers both opportunities as well as threats." Do you agree with the given statement? Discuss it with the help of an example.

Ans. Yes, I agree with the given statement. Awareness about the environment helps an organisation to identify opportunities and threats. Both they are discussed as follows:

- (i) Opportunities are positive external trends or changes that help a firm to improve its performances. Early identification of opportunities gives an enterprise an edge over competitors.
Example: Maruti Udyog become a leader in small segment because it identified the need of small car for middle class families.
- (ii) Threats refer to negative external environmental changes that hinders the firm's performance. Environmental awareness can help manager to identify threats and serve as an early warning signals.
Example: If a new MNC is entering in Indian market, it should serve as a warning signal for Indian firms and they should prepare themselves to meet the challenge.

Q 8. Scientific research has discovered a technology that makes it possible to produce an energy efficient light bulb that lasts at least 20 times as long as a standard bulb. Senior managers in the lighting

divisions at General Electric and Philips recognised that. This discovery had the potential to significantly affect their growth and profitability. So, they have carefully followed the progress on this research and profitably used its findings. The above mentioned incident throws light on the fact that various factors that constitute the business environment are relevant for decision-making and improving the performance of an enterprise. Identify any two such factors by quoting lines from the paragraph.

Ans. The two factors related to quoting lines are:

- (i) **Technological Environment:** Scientific research has discovered a technology that makes it possible to produce an energy efficient light bulb that lasts at least 20 times as long as a standard bulb.
- (ii) **Economic Environment:** Senior managers in the lighting divisions at General Electric and Philips recognised that this discovery had the potential to significantly affect their growth and profitability.

Q 9. State the impact of demonetisation on interest rates, private wealth and real estate. (NCERT)

Ans. Demonetisation had the following effect on these sectors:

- (i) **Interest Rates:** As demonetisation happened, the number of cash transactions reduced, bank deposits increased in the form of Jan-Dhan Accounts. More financial savings by the people of the nation.
- (ii) **Private Wealth:** Private wealth saw a decline as large volume transactions were not possible with old notes.
- (iii) **Real Estate:** Demonetisation led to a decline in real estate prices. The real estate industry witnessed a huge drop in business.

Q 10. A recent rate cut in the interest on loans announced by the Banks encouraged Amit, a science student of progressive school to take a loan from State Bank of India to experiment and develop cars to be powered by fuel produced from garbage. He developed such a car and exhibited it in the science fair organised by Directorate of Education. He was awarded first prize for his invention. Identify and explain the dimensions of business discussed in the above case.

Ans. The dimensions of business environment discussed in the above case are:

- (i) **Economic Environment:** It comprises of factors such as interest rates, inflation rates, changes in disposable income of people, stock market indices, value of rupee, etc.
- (ii) **Technological Environment:** Technological environment includes forces relating to scientific improvements and innovations which provides new ways of production of goods and services.



Short Answer Type-II Questions

Q 1. Explain any four characteristics of business environment.

Ans. The four characteristics of business environment are as follows:

- (i) **Totality of External Forces:** Business environment is the sum total of all the external forces and factors that influence the working of a business firm.
- (ii) **Specific and General Forces:** Business environment includes both specific and general forces. Specific forces include investors, competitors, customers, etc., who influence business firm directly while general forces include social, political, economic, legal and technological conditions, which affect a business firm indirectly.
- (iii) **Inter-relatedness:** Different elements or parts of a business environment are closely inter-related. For example, increased awareness for healthcare has raised the demand for healthy oil-free food and healthy lifestyle.
- (iv) **Dynamic Nature:** Business environment is dynamic in nature, i.e., it keeps on changing with the change in technology, shift in consumer preferences, entry of new competition in the market, etc.

Q 2. With change in the consumption habits of people, Neelesh, who was running a sweets shop shifted to chocolate business. On the eve of Diwali, he offered chocolates in attractive packages at reasonable prices. He anticipated huge demand and created a website chocolove.com for taking orders online. He got a lot of orders online and earned huge profit by selling chocolates. Identify and explain the dimensions of business environment discussed in the above case.

Ans. The dimensions of business environment discussed in the above case are as follows:

- (i) **Social Environment:** Various sources exist in the business environment in form of customs and traditions, values, social trends and society expectations from business. Customs and traditions refer to the social practices that have lasted for decades or even centuries, e.g., Celebration of Diwali, Eid, etc. These festivals provide financial opportunities for greeting card companies, sweet manufacturers, etc.
- (ii) **Technological Environment:** Technological environment includes forces relating to scientific improvements and innovations which provide new ways of production of goods and services or new methods and techniques of operating business. For example, technological improvement in computers helps the sellers to offer goods and services online.

Q 3. How can interest rates, inflation rates, changes in disposal income of people, stock market indices and the value of rupee change the management practices in a business enterprise? Explain with the help of an example.

Ans. Interest rates, inflation rates, changes in disposal income of people, stock market indices and value of rupee are the constituents of economic environment of business environment. These are described below:

- (i) If interest rates rise, then a business enterprise puts its expansion and diversification plans on hold, as it leads to increase in costs. On the other hand, if interest rate falls then business enterprises increase their investments and tend to expand and diversify.
- (ii) Inflation rates increase costs of business in the form increased cost of raw material, wages, etc. This results in fall in profitability. So, a business enterprise cuts down its production and workers are laid-off.
- (iii) Changes in disposable income of people affect demand for goods. If GDP rises, disposable income of people rises and in turn demand for products rises. This motivates the business enterprises to expand its production. If, on the other hand, disposable income falls, then business enterprises cut down their production.
- (iv) If the stock market indices rise, then the market value of a business enterprise increases and the enterprise brand value improves. If stock market indices fall, then market and brand value of the business enterprise falls.
- (v) If the value of rupee depreciates, then the international demand for Indian goods and services increases and thus business enterprises increase their production. If the value of rupee appreciates, then the international demand for Indian goods and services decreases and thus business enterprises decrease their production.

Q 4. How can customs and traditions, values, social trends and societies expectations change the management practices in a business enterprise? Explain with the help of an example.

Ans. Customs and traditions, values, social trends and societies expectations from business, etc., all constitute the social environment of business environment. Social environment affects the functioning of a business enterprise as:

- (i) Customs and traditions like celebration of Diwali, Eid, etc., provide various opportunities for businesses related to greeting cards, sweet manufacturers, etc.
- (ii) In India, social values such as equal opportunities to all, freedom, etc., are held in high esteem. So, companies should not discriminate on the basis of caste, gender, etc., while recruiting.

- (iii) Social trends present threats and opportunities to a firm. For example, health and fitness trends has proved to be an opportunity for industries manufacturing mineral water, juices, etc., and a threat to industries producing liquor, tobacco, etc.
- (iv) Society expects that they should get value for their products. So, business enterprises try to make good quality products at reasonable prices.

Q 5. Mahinder Agro Ltd. started a new venture for distribution of harmful and chemical fertilizers free vegetables. They conducted a survey to find out consumer preferences for such vegetables. They found that most of the consumers were concerned about the harmful chemicals being used in growing the vegetables. They found that 90% of the households were searching for its alternatives. The company contacted a group of agriculture experts to lay down the procedure for growing the vegetables by the farmers. They decided to train the farmers in new technology to grow chemical-free vegetables according to new innovative methods. The experts also suggested soil management techniques through which farmers would be able to create an abundant and lasting harvest.

Identify and explain the two dimensions of business environment highlighted in the above paragraph.

Ans. The two dimensions of business environment referred in the given case are:

- (i) **Social Environment:** Various social forces exist in the business environment in form of customs and traditions, values, social trends and societies expectations from business.
- (ii) **Technological Environment:** Technological environment includes forces relating to scientific improvements and innovations which provide new ways of production of goods and services and new methods and techniques of operating a business.

Q 6. The court passed an order that all the schools must have water purifier for the school children as:

- (i) Society in general is more concerned about the quality of life.
- (ii) Innovative techniques are being developed to manufacture purifier at competitive rates.
- (iii) Incomes are rising and children at home are also drinking purified water.

Identify the different dimensions of business environment by quoting from the above details.

Ans. The following dimensions of business environment are brought forward:

- (i) **Legal Environment:** "The court passes an order that all schools must have water purifier for the school children."

- (ii) **Social Environment:** "Society in general is more concerned about quality of life."

- (iii) **Technological Environment:** "Innovative techniques are being developed to manufacture water purifier at competitive rates."

- (iv) **Economic Environment:** "Incomes are rising and children at home are also drinking purified water."

Q 7. Court passed an order to ban polythene bags as:

- (i) These bags create many environmental problems which affect the life of people.
- (ii) Society at large is more concerned about the quality of life.
- (iii) The government decided to give a subsidy to the jute industry in order to promote this business.
- (iv) Innovative techniques are being developed to manufacture jute bags at low rates.

Identify the different dimensions of business environment by quoting lines from the above particulars.

Ans. The various dimensions of business environment being referred to in the above case are as follows:

- (i) **Legal Environment:** "The court passed an order to ban polythene bags."
- (ii) **Social Environment:** "The bags create many environmental problems which affect the life of people and society at large is more concerned about the quality of life."
- (iii) **Political Environment:** "The government decided to give a subsidy to the jute industry in order to promote this business."
- (iv) **Technological Environment:** "Innovative techniques are being developed to manufacture jute bags at low rate."

COMMON ERROR

Students tend to get confused between legal and political environment and may identify them in a wrong manner.



TIP

Legal environment relates to binding laws that everyone has to follow otherwise they will attract penalty whereas political environment represents attitude of political leaders and parties. So, statements in the form of imposition of same law or rule must be identified with legal environment.

Q 8. Postage stamps have been unveiled to commemorate 140 years of existence of the country's first stock exchange the Bombay Stock Exchange (BSE). The setting up of BSE is considered to be the greatest revolution that took place in the financial markets in India as it acts as a key driver for economic growth of a country. This is due to the fact that there exists a strong correlation between economic growth and capital accumulation.

In the context of the given paragraph:

- (i) Identify the dimension of business environment of India being referred here.
- (ii) State any three factors which broadly affect the dimension of business environment of India as identified in point (i) of the question.

- Ans. (i) Economic environment as the dimension of business environment of India being referred here.
- (ii) The three factors which broadly affect the economic environment of India are stated below:
- (a) Stage of economic development of the country.
 - (b) The economic structure in the form of mixed economy which recognises the role of both public and private sectors.
 - (c) Economic planning including Five Year Plans, annual budgets and so on.

Q 9. Explain giving an appropriate example as to how the political environment affects the functioning of business organisation.

- Ans. The general stability and peace and order in the country as well as the specific attitudes, that elected government officials have towards business, influence business organisations.

Stand point of the government representatives may have either a positive or negative impact upon business enterprises.

For example, Many IT organisations in India are vying for SEZ (Special Economic Zone) status due to the benefits attached to the SEZ projects like tax reliefs offered by the Central Government but approval for setting up such units depends upon the policies and procedures of the respective State Governments.

Q 10. Explain how does the understanding of business environment help the management in the following:

- (i) Tapping useful resources,
- (ii) Coping with rapid changes.

- Ans. (i) **Tapping Useful Resources:** It helps in tapping useful resources by designing the policies that allow it to get the resources. It need so that it can convert resources into outputs that the environment desires.

- (ii) **Coping with Rapid Changes:** It helps in coping with rapid changes as the managers are able to understand and examine the environment and develop appropriate courses of action.

Q 11. How does understanding of business environment help the management in the following:

- (i) Identification of threats and early warning signals.
- (ii) Improving performance.

- Ans. (i) **Warning Signals:** It helps the firm to identify threats and early warning signals which are likely to hinder a firm's performance and take timely actions.

- (ii) **Helps in Improving Performance:** It helps in improving performance of an enterprise through continuous monitoring of the environment and adopting suitable business practices which help to improve both their present and future performance.



Long Answer Type Questions

Q 1. Anurag, aspires to work with a socially and environmentally committed company as he does not want to work just for monetary benefits, but also the brand value of the company he works for in the society matters a lot to him. Therefore, he has joined Cerebra Integrated Technologies, a Bengaluru based Infotech company. The company has built India's largest e-waste recycling plant. The company strives to be one of the leading players in this business which has huge potential not only in terms of generating huge revenues and profits but also wants to contribute to the environment issues that have become crucial worldwide. The company sees big business in the mountains of e-waste in Bengaluru which produces 200,000 tonnes of e-waste in a year. The company plans to make its millions by extracting metals such as gold and platinum from the e-waste piling up in the city. As a mobile phone, for example, is made up of a combination of rare earth and precious metals: it contains 250 mg of silver, 24 mg of gold and 9 mg of palladium while a laptop has 1,000 mg of silver, 220 mg of gold and 500 grams of copper. To start the business, the company has obtained a licence from KSPCB (Karnataka State Pollution Control Board).

In context of the above paragraph:

Identify the various dimensions of business environment being referred to by quoting lines from the paragraph.

- Ans. The various dimensions of business environment being referred to in the above case are as follows:

- (i) **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.

- (ii) **Legal Environment:** Legal environment includes various legislations passed by the government administrative orders, court judgements as well as the decisions rendered by various commissions and agencies at every level of the government—central, state or local.

- (iii) **Social Environment:** Social environment includes the social forces like customs and traditions, values, social trends, societies expectations from business, etc.

- (iv) **Economic Environment:** It has immediate and direct impact on a business. Rate of interest, inflation rate, change in disposable income of

people, monetary policy, stock market indices, etc., are some economic factors, which could affect business firms. Changes in the economic factors result in opportunities or constraints on a business enterprise.

Q 2. Eco-friendly products are gaining power as the consumers' awareness about environmental issues has increased over the years and they are conscious about choosing products that do not have adverse effects on the environment. They are now more conscious about the carbon emission and climate change effects and want themselves to be 'seen' as a green advocate among their peers. In such a scenario, it has become a challenge for the companies as they have to not only meet the needs of the consumers but also ensure that their products are safe and environment friendly. As a result, there is growing need for better and advanced technologies to work as a catalyst in this regard.

(i) Identify the relevant feature of business environment being discussed above.

(ii) Describe briefly any three points which highlight the importance of business environment and its understanding by managers.

Ans. (i) The relevant feature of business environment is:

Inter-relatedness: Different elements of business environment are closely inter-related. For example, increased life expectancy and awareness for healthcare have increased the demand of many health products like fat-free cooking oil, juices, etc.

(ii) Three importance of business environment and its understanding by managers are described below:

(a) It enables the firm to identify opportunities and get first mover advantage. Opportunities are positive external trends or changes that help the firm to improve its performance. Business environment provides various opportunities to a firm. Early identification of opportunities gives an enterprise an edge over competitors.

(b) It helps the firms to identify threats and early warning signals. Threats refer to external environment changes that will hinder firm's performance. Business environment provides various threats to a firm. Environmental awareness can help managers to identify various threats on time and serve as an early warning signals.

(c) Business environment enables tapping of useful resources. Business environment offers various resources to a business firm which is utilised by it for producing products. These resources (finance, machines, raw

materials, power, water, labour, etc.) are called inputs and products and services, payment of taxes to government, return on investment to investors, etc., are called outputs.

Q 3. Konark Ltd. is an electronic goods manufacturing enterprise situated in Shivpuri, Madhya Pradesh. It is earning a very low revenue in comparison to a competing electronic goods manufacturing enterprise, 'Nova Ltd.' situated in Mumbai. Both Konark's and Nova's operations are affected directly by the investors, customers, competitors and suppliers, which are unique to their respective locations. In addition to this, individual firms of this field are affected indirectly by the factors like the money supply in the economy, composition of the families, the technological changes, etc. Identify and state the feature of the concept discussed in the above paragraph.

Also state any four points of importance of this concept.

Ans. The concept discussed in the above paragraph is 'Business Environment' and feature is 'Specific and General Forces'.

The four importance of business environment are:

(i) First Mover Advantage: It enables the firm to identify opportunities and getting the first mover advantage instead of losing them to its competitors.

(ii) Warning Signals: It helps the firm to identify threats and early warning signals which are likely to hinder a firm's performance and take timely actions.

(iii) Tapping Useful Resources: It helps in tapping useful resources by designing the policies that allow it to get the resources. It needs so that it can convert resources into outputs that the environment desires.

(iv) Coping with Rapid Changes: It helps in coping with rapid changes as the managers are able to understand and examine the environment and develop appropriate courses of action.

Q 4. The Government of India announced demonetisation of ₹ 500 and ₹ 1,000 currency notes with effect from the midnight of 8th of November, 2016. As a result, the existing ₹ 500 and ₹ 1,000 currency notes ceased to be legal tender from that date. New currency notes of the denomination of ₹ 500 and ₹ 2,000 were issued by Reserve Bank of India after the announcement. This step resulted in a substantial increase in the awareness about the use of point of sale machines, e-wallets, 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.

Enumerate the dimensions of business environment highlighted above.

State the features of demonetisation.

Ans. Dimensions of business environment highlighted above are:

- (i) Economic environment
- (ii) Technological environment
- (iii) Political environment
- (iv) Legal environment

Features of demonetisation are:

- (i) Demonetisation is viewed as a tax administration measure. Those with black money had to declare their unaccounted wealth and pay taxes at a penalty rate.
- (ii) Demonetisation is also interpreted as a shift on the part of the government indicating that tax evasion will no longer be tolerated or accepted.
- (iii) Demonetisation also led to tax administration channelising savings into the formal financial system.
- (iv) Another feature of demonetisation is to create a less cash or cash like economy i.e., channelling more savings through the formal financial system and improving tax compliance.

Q 5. Explain the importance of business environment.

Ans. The main Importance of business environment are:

- (i) **First Mover Advantage:** It enables the firm to identify opportunities and getting the first mover advantage instead of losing them to its competitors.
- (ii) **Warning Signals:** It helps the firm to identify threats and early warning signals which are likely to hinder a firm's performance and take timely actions.
- (iii) **Tapping Useful Resources:** It helps in tapping useful resources by designing the policies that allow it to get the resources. It needs so that it can convert resources into outputs that the environment desires.

(iv) **Coping with Rapid Changes:** It helps in coping with rapid changes as the managers are able to understand and examine the environment and develop appropriate courses of action.

(v) **Planning and Policy Formulation:** It helps in assisting, in planning and policy formulation as its understanding and analysis can be the basis for deciding the future course of action or decision-making.

(vi) **Helps in Improving Performance:** It helps in improving performance of an enterprise through continuous monitoring of the environment and adopting suitable business practices which help to improve both their present and future performance.

Q 6. Define demonetisation. What was the rationale behind taking this step by the Government of India?

Ans. **Demonetisation:** It refers to the act of stripping a currency as legal tender. The current form of money is removed from circulation and retired and is replaced with new notes and coins.

The rationale behind taking this step are as follows:

- (i) To curb the circulation of fake currency in the economy.
- (ii) To tackle corruption due to currency upholds.
- (iii) To make the idle money productive. When old currency is demonetised, unaccounted money flows back into the banking system leading to a considerable increase in bank deposits. This leads to easy availability of money and the lending rates also come down.
- (iv) To promote cashless society and thereby bringing transparency in financial transactions. It also helps in curbing corruption, crime and tax evasion.
- (v) To fight inflation.



Chapter Test

Multiple Choice Questions

Q 1. "Tata Udyog became the leader in small car market because it was the first to recognise the need for small car." Which importance of business environment is highlight in given case?

- a. Helps in tapping useful resources
- b. Helps in coping with rapid changes
- c. Helps in improving performance
- d. Helps to identify opportunities and getting first mover advantage

Q 2. Changes in Gross Domestic Product is a part of:

- a. economic environment
- b. social environment
- c. political environment
- d. legal environment

Q 3. The process of detaching a currency unit from its status as legal tender in the country is known as:

- a. Monetisation
- b. Demonetisation
- c. Revaluation
- d. Devaluation

Q 4. Statement I: Timely understanding of the business environment helps to make suitable changes in the organisation.

Statement II: A firm gets various resources or inputs from its business environment.

Choose the correct option from the options given below:

- a. Statement I is true and II is false.
- b. Statement II is true and I is false.
- c. Both the statements are true.
- d. Both the statements are false.

Assertion and Reason Type Questions

Directions (Q. Nos. 5-6): There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below:

- a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- b. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- c. Assertion (A) is true, but Reason (R) is false.
- d. Assertion (A) is false, but Reason (R) is true.

Q 5. Assertion (A): Reservation of jobs for backward classes as per the Constitution of India affects the business environment.

Reason (R): Various elements of legal dimension affect the business environment.

Q 6. Assertion (A): Entry of new firms in the market may make an enterprise think fresh about how to deal with the situations.

Reason (R): Business environment assist in planning and policy formulation.

Case Study Based Questions

Q 7. Read the extract given below and answer the questions on the basis of the same:

The name and taste of Coca-Cola is known to almost each and every individual in India as well as throughout the world. This carbonated soft drink holds the most market share in the soft drink market and got itself a special seat in each and every gathering. The Coca-Cola Company has on occasion introduced other cola drinks under the Coke name. The most common of these are Diet Coke, along with others including Caffeine free Coca-Cola, Diet Coke Caffeine free, Coca-Cola Zero Sugar, Coca-Cola Cherry, Coca-Cola Vanilla and the list goes on. It has capitalised on each and every opportunity to market itself effectively and place itself in the middle of every gathering. The main reason for such an outstanding placement of product goes to the way they have established the connection between every occasion and the need for Coke to be present there, product design and creative advertising.

(i) In the context of the above given case, identify one valid importance of business environment.

- a. Enables a firm to identify opportunities and getting first mover advantage
- b. Uncertainty
- c. Delay in action
- d. Pervasive function

(ii) Identify the feature of business environment which the Coca-Cola Company managed to get in their favour.

- a. Complex
- b. Specific and general forces
- c. Futuristic
- d. Mental exercise

(iii) Which of the following is not a product of Coca-Cola?

- a. Diet Coke Caffeine free
- b. Coca-Cola Zero Sugar
- c. Coca-Cola Avocado
- d. Coca-Cola Cherry

Q 8. Read the extract given below and answer the questions on the basis of the same:

The organic food market in India is growing at 25-30% which reflects a clear shift in consumer tastes and preferences. The current growth in the organic food market is driven by multiplicity of factors like rising health consciousness, changing lifestyles, increase in disposable income and growing availability of organic food products in shopping malls, retail outlets and online.

(i) Identify the feature of business environment highlighted in the given line of the extract, "The organic food preferences."

(ii) Which dimension of business environment is highlighted in the phrase, "increase in disposable income."

Very Short Answer Type Questions

- Q 9. Why is it said that business environment is complex?**
- Q 10. What is included in the technological environment of business? State.**
- Q 11. The understanding of business environment helps the managers to identify threats. What is meant by 'threats' here?**

Short Answer Type-I Questions

- Q 12. Explain any two purposes of demonetisation in the country.**
- Q 13. State any three points of importance of business environment.**

Short Answer Type-II Questions

- Q 14. Explain any two features of demonetisation.**
- Q 15. Explain legal environment as a component of business environment.**

Long Answer Type Questions

- Q 16. Explain by giving any five reasons why understanding of business environment is important for managers?**
- Q 17. Explain any four characteristics of business environment.**