

**CLASS 12 BUSINESS STUDIES**  
**CHAPTER-3**  
**BUSINESS ENVIRONMENT**

**IMPORTANT QUESTIONS**

**VERY SHORT ANSWER QUESTIONS (1 or 2 Marks)**

**QUESTION 1.**

**What is Business Environment?**

**Answer:** Forces affecting the performance of an organization but outside its control are called as Business Environment.

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**QUESTION 2.**

**Which of the sector was given importance after independence?**

**Answer:** Public sector.

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**QUESTION 3.**

**How have customers benefited by increased competition after liberalization and globalization?**

**Answer:** While purchasing they get a better quality and wider choice of goods and services.

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**QUESTION 4.**

**What do you mean by Liberalisation?**

**Answer:** It means reduction in government controls and restrictions

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**QUESTION 5.**

**How can the firms cope up with changing technological environment?**

**Answer:** By developing new ways of doing things.

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**QUESTION 6.**

**What is meant by opportunities?**

**Answer:** It refers to the positive external trends that help an enterprise to improve its performance

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**QUESTION 7.**

**What do you mean by Globalization?**

**Answer:** Globalization means interaction and interdependence of a country with the economies of other countries to facilitate free flow of goods and services, capital and technology across borders.

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**QUESTION 8.**

**Which policy of Indian Government has moved India towards globalization?**

**Answer:** The Industrial Policy of 1991.

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**QUESTION 9.**

**What do you mean by Innovation?**

**Answer:** Producing goods and services by newly developed methods is called as Innovation.

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**QUESTION 10.**

**Name the economic reforms introduced to free Indian business from unnecessary controls and restrictions.**

**Answer:** Liberalisation

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**QUESTION 11.**

**What do you mean by disinvestment?**

**Ans.** When the private sector takes over public sector, it is called as disinvestment.

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**QUESTION 11.**

**Give one measure taken by Indian Government to introduce liberalization.**

**Ans.** Abolishing licensing requirements.

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**SHORT ANSWER QUESTIONS (3 or 4 Marks)**

**QUESTION 12.**

**Explain how does the understanding of business environment help the management in the following:**

**(a) Tapping useful resources; and**

**(b) Coping with rapid changes.**

**(CBSE Board 2015)**

**Answer:**

(a) Understanding of business environment helps in **tapping useful resources** by designing the policies that allow it to get the resources it need, so that they can convert resources into outputs that the environment desires.

(b) Understanding of business environment helps in **coping with rapid changes** by developing suitable courses of action to deal with changes taking place in the environment as well as the pace of change.

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**QUESTION 13.**

**An environmental conscious multinational company "AXN Ltd." follows certain well defined business principles that result to minimize the employee turnover. Following are some of the important environmental factors followed by 'AXN Ltd.'**

**(1) Honour the law of every country in which it operates.**

**(2) Respect the culture and customs of all nations.**

**(3) Provide clean and safe products to enhance the quality of life throughout the world.**

**(4) Develop a culture in the company that enhances individual creativity and teamwork while honouring mutual trust and respect between management and labour.**

**From the above:**

**(i) Identify and state any one general principle of management and any one dimension of business environment.**

**(ii) Also identify any two values which the above guiding principles and environmental factors are conveying to the society.**

**(CBSE BOARD 2015)**

**Answer:**

**(i) Principle of management:**

- a) Stability of personnel
- b) Esprit de corps
- c) Initiative

**Dimension of business environment:**

- a) Legal environment.
- b) Social environment.

**(ii) Values being conveyed:**

- a) Respect for law
- b) Cleanliness and hygiene
- c) Raising standard of living
- d) Secularism

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#### **QUESTION 14.**

**‘Accent Electronics Ltd.’ was operating its business in Malaysia. The company started exporting its products to India when the Prime Minister announced relaxation in import duties on electronic items. The company appointed retailers in India who had direct on-line links which the suppliers to replenish stocks when needed.**

**Identify and explain the dimensions of business environment discussed in the above case.**

**(CBSE BOARD 2016)**

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

**i) Economic Environment:** Reference line- "company started exporting its products to India"

**Economic Environment:** It comprises the economic variables such as interest rates, income, stock market indices that affect the functioning of the enterprises. For example, an increase in the income of the consumers in turn increases the demand for goods and services in an economy. Similarly, a fall in the interest rates of loans for consumer durables increases the spending capacity, and thereby increases the demand for such products.

**ii) Legal Environment:** Reference line-"Prime Minister allowed relaxation in import duties on electronic items"

**Legal Environment:** It comprises of the legislations and rules passed by the government such as the Companies Act, Trade union Act, etc. These legislations govern how an enterprise functions and behaves. Knowledge of these legislations is essential for enterprises as their non-compliance can lead to legal trouble for them.

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#### QUESTION 15.

**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 lot of orders online and earned huge profit by selling chocolates.**

**Identify and explain the dimensions of business environment discussed in the above case.**

**(CBSE BOARD 2016)**

**Answer.** The dimensions of business environment that have been discussed here are as follows.

**i. Social Environment-** 'Change in consumption habits of people'

**Social environment** refers to the social forces such as customs, traditions, social values, social trend etc. For example, religious celebrations provide business opportunities to many enterprises such as those producing sweets, decoration items, gifts etc. Similarly, in India a change in social trend towards western lifestyle has increased the demand for western wear, consumption of fast food, etc.

**ii. Technological Environment-** 'Created a website chocolove.com for taking orders online'

**Technological environment** comprises of the technological changes and improvements. 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.

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#### QUESTION 16.

**Explain the role of political environment in shaping the business.?**

**Answer. :** 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 & order situation may bring uncertainty in business activities.

A business functions within the framework of political environment. Generally, government's policies change with the change of guard in power. Business is required to understand and follow such changes and also respect the orders that judiciary gives from time to time.

For example, after globalization, Government of India allowed many companies to enter the Indian market for giving boost to the different industries like food processing industry etc. That paved the way for entry of multinationals in India on a large scale.

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#### **QUESTION 17.**

**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 environment discussed in the above case.**

**Answer.** The dimensions of business environment discussed in the above case are as follows.

**i) Economic Environment-** Reference line "A recent cut in the interest on loans announced by banks."

**ii) Technological Environment-** Reference line: "Developed cars to be powered by fuel produced from garbage".

Explanations of aforementioned dimensions of business environment

**i) Economic Environment:** It comprises the economic variables such as interest rates, income, stock market indices that affect the functioning of the enterprises. For example, an increase in the income of the consumers increases the demand for goods and services of the enterprises. Similarly, a fall in the interest rates of loans for consumer durables increases the spending capacity, and thereby increases the demand for such products.

**ii) Technological Environment:** Technological environment comprises the technological

changes and improvements. For example, introduction of computers and the Internet has changed the working style of the organisations today. Similarly, continuous improvement and innovations in the technology used in the production improves the quality of production. While on the one hand, improvement in technology provides new business opportunities for the enterprises; on the other hand, it is a threat for the enterprises using obsolete technology.

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#### **QUESTION 18.**

**Enumerate the benefits of understanding business environment.**

**Answer.** The benefits of understanding business environment are:

- (i) Enabling the identification of opportunities and getting the first mover advantage.
  - (ii) Helping in the identification of threats and early
  - (iii) Tapping useful resources.
  - (iv) Coping with the rapid changes.
  - (v) Assisting in planning and policy.
  - (vi) Improvement in performance.
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#### **QUESTION 19.**

**Business environment or Environmental Scanning helps in the identification of threats and early warning signals." Explain?**

**Answer.** Environmental scanning helps an enterprise to recognize qualitative information in advance, which can be used to prepare it for facing likely challenges. For example, if any new multinational company is entering the Indian market, the manager of an Indian firm dealing with the same product, should take it as a warning signal. He should take measures like improving the quality of his product, heavy advertisement etc. to face the challenge.

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#### **QUESTION 20.**

**Mention four examples of acquisitions and mergers.**

**Answer.** Four examples of mergers and acquisitions are:

- (i) SRF buy Ceat's Rayon Tyre Cord.
- (ii) Parle's take-over by Coke.
- (iii) Godrej has bought over Goodnight.
- (iv) Hutch by Vodafone.

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## LONG ANSWER TYPE QUESTIONS (5 OR 6 MARKS)

### QUESTION 21.

Metlapp Networks and Technologies Ltd. is a leader in technology innovation in the United States, creating products and solutions for connecting the world. It has a large research and development team which invented the first smart watch, named as W-7. The watch besides showing the time also monitors few health parameters like heart beat, blood pressure etc. While in search of markets abroad, the company found that in India, the reform process was underway with the aim of accelerating the pace of economic growth. The company decided to take advantage of simplified export procedure and removal of quantitative as well as tariff restrictions in India.

It set up its office in Jamnagar with a view to capture the Indian market. In a short span of time, the company emerged as a market leader. Success of the company attracted many other players to enter the market. Competition resulted in reduction in prices, thereby benefiting the customers.

(a) In the above paragraph, two major concepts related to government policy have been discussed. Identify and explain these concepts.

(b) Also, explain briefly any three impacts of these concepts on Indian business and industry.

**Answer.**

a. The two concepts related to the government policy discussed in the question are Liberalisation and Globalisation.

**1. Liberalisation:** Liberalisation refers to the removal of controls and restrictions imposed by the government. They indicated the end of the famous license-permit-quota raj in India.

**2. Globalisation:** Globalisation refers to the integration of economies of the world. It is the process associated with increasing openness, growing economic independence and promoting economic integration in the world economy.

b. The three major impacts of these concepts on Indian business and industry were:

**1. Increased competition:** As a result of measures such as abolition of the licensing policy, dereservation and encouragement to foreign direct investment, the competition faced by industries increased, both internally as well as externally, from foreign enterprises. This increase in competition was particularly felt in service industries, such as telecommunication, banking and insurance.



**2. Increased demand:** With the increased competition, producers increasingly became market-oriented. They began to produce goods keeping in mind the market demand. Therefore, the availability of goods and services for the consumers and the quality also increased tremendously. Thus, consumers gained from quality products and greater variety, and their demand for products increased.

**3. Change in business policies:** The government policies under the new industrial policy directly affected the functioning of business enterprises. As a result, they altered their policies and operations appropriately.

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#### **QUESTION 22.**

**Social environment of business is important for a business enterprise". Explain ?**

**Answer.** A business is a part of the society in which it operates. The buying and consumption habits of the people, their languages, customs, preferences, tastes etc. are the factors that influence the business. The management should be aware of the changes happening in the business environment to exploit the right opportunities and to mitigate threats. 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 affect the survival of the business in the long run. For example, equal pay for male and female workers, demand for reservation in jobs for minorities and women etc.

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#### **QUESTION 23.**

**Enumerate any ten Positive impacts of liberalization and globalization.**

**Answer.** The positive impacts of liberalization and globalization are as follow:

- I. Opportunities for new entrepreneurs.
  - II. Latest technology becoming available.
  - III. Opening up of foreign markets.
  - IV. Easy imports of capital goods.
  - V. Direct investment by Indian companies abroad.
  - VI. Changed attitude of labor unions,
  - VII. Easy inflow of foreign capital.
  - VIII. Freedom to expand and diversify.
  - IX. Restructuring of industries.
  - X. Widening of product choices for consumers.
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#### QUESTION 24.

**Explain any five negative impacts of liberalization and globalization.**

**Answer.** Following are the negative effects of liberalization and globalization.

**(i) Threats from multinational companies (MNCs)** :With the arrival of multinationals it is becoming difficult for small and medium business units to even survive. The massive entry and consolidation to multinationals in the Indian markets is a challenge that has already forced some business enterprises to take the exit route.

**(ii) Destabilization of protected environment** :With easier entry of multi-national companies, Indian business environment is fast losing its protective shield. The new entrepreneurial freedom is creating problems for the existing players. Even manufacturers of Maruti car could not retain their market share and had to remodel their products and announce heavy price reductions from time to time.

**(iii) Decline in public sector** : Public sector is losing markets and their capacity utilization has declined, hampering thereby pace of country's technological and economic growth.

**(iv) Sellers' market turned into buyers' market:** With the entry of foreign goods .and services, shortage of goods, which is a boon for the sellers, has now turned into surplus. Resultantly, sales/margin to any sellers have come down substantially. Buyers are now free to buy any product of their choice at a price they can afford.

**(v) Fall in the value of rupee** : Indian rupee has been devaluing against DOLLAR, EURO and many other foreign currencies. This phenomenon has forced even some established exporters to encase their stake partly/fully.

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#### QUESTION 25.

**'Explain 'fiscal reforms' and 'monetary reforms' as per economic change initiated by Government of India since 1991.**

**Answer.**

**(i) Fiscal Reforms**

- Measures have been taken to bring down fiscal deficit.
- Tax reforms have been initiated to increase revenue and tax compliance
- Reduction in direct and indirect taxes.

- Decrease in subsidies.

## **(ii) Monetary Reforms**

- Phased reduction of statutory liquidity ratio (SLR).
  - Private sector banks allowed to set up new branches.
  - Banks have now been allowed to access capital market for raising capital.
  - Permission for disinvestment (up to 49% of total equity).
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## **QUESTION 26.**

**Explain any five ways in which managers have responded to changes in business environment.**

**Answer.** Following are the ways in which managers have responded to changes in business environment:

**i) Strategic alliance, mergers and consolidation of businesses :** To achieve the objectives of market dominance, market entry, product ranges etc., the Indian business enterprises are also indulging in mergers, acquisitions, amalgamations and takeovers. Initiative for the same has naturally come from managers of such enterprises.

**ii) Diversification spree:** Managers are leading diversification of their companies into various fields. For example, Reliance is now also in the business of communications, retail chains etc. Likewise, they are bold enough to diversify into other nations too if the need arises.

**iii) Consolidation of multinationals:** Many multinational companies have entered India through new joint ventures. For example, General Motors' entry through a joint venture with Hindustan Motors.

**iv) Brand Building:** Companies are becoming more aggressive towards brand building. Their managers are spending huge amounts on the same. Focus is on securing prime positions for their brands, through creative media-mix, in the minds of consumers.

**v) Labor :** Managers are changing their behavior towards labor. Labors have also benefitted through higher wages and other facilities like training to upgrade their skills and job enrichment

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## QUESTION 27.

**Briefly discuss the impact of government policy changes on the business and industry.**

**Answer:**

The policies of liberalisation, privatisation and globalisation by the government affect the functioning of the business enterprises. The following points highlight the impact of government policy changes on the business and industry.

**i. Increased Competition:** As a result of the policies such as relaxation of the licensing policy and reduction of import duties, the competition faced by the domestic firms increases. India companies experienced competition in service industry such as telecommunication, banking, insurance, etc.

**ii. Increased Demand:** As competition increases, the choice of goods and services for the consumers also increases. Thus, consumers also gain from quality products and greater variety.

**iii. Change in Business Policies:** The government policies directly impact the functioning of the business enterprises. As a result, they have to alter their policies appropriately.

**iv. Technological Changes:** As competition increases firms tend to find new and innovative ways to survive in the market. In such a scenario, technological improvements become imperative.

**v. Need for Trained Personnel:** Innovations and improvement in product, application of improved technologies requires skilled and trained personnel. Thus, there arises a need for the development of human resources.

**vi. Greater Market Orientation:** With increased competition, the production has become market oriented. That is, the enterprises produce as per the demand market.

**vii. Less Reliance on Budgetary Support by Public Sector Enterprises:** To survive the increased competition, the public sector enterprises must improve efficiency and productivity rather than relying on budgetary support to cover their losses.

On the whole, the impact of Government policy changes particularly in respect of liberalisation, privatisation and globalisation has been positive as the Indian business and industry has shown great resilience in dealing with the new economic order. Indian enterprises have developed strategies and adopted business processes and procedures to meet the challenge of competition. They have become more customer-focused and adopted measures to improve customer relationship and satisfaction