

UNIT-III

Business Environment

1. What is business environment? Explain three features of business environment.

Ans: Business environment is the overall climate created by internal & external forces within which an enterprise operates. It reflects the overall state of affairs that affect entire business community. Business environment is the aggregate of all conditions, events and influences that surround & affect it.

Features of Business Environments are:

- i) **Forces influencing Business:** - Business environment includes all those forces, factors, institutions which directly or indirectly affect the working of business organizations.
- ii) **Inter-related Factors:** Various factors influencing business environment are inter - related to each other.
- iii) **Uncertainty:** Business environment is very uncertain since rapid changes are taking place.
- iv) **Complex:** It is very difficult to understand the impact of business environment on the companies.

2. Explain the importance of Business Environment.

Ans: Importance of business environment can be discussed with the help of the following points:

- i) **Advantage of early Move:** A businessmen who is aware of coming opportunities, may be benefited by his early moves. It requires proper planning and understanding of the business environment and grabbing the opportunities coming in their way.
- ii) **Long-term planning:** With the help of prevailing business environment, strategic (long term) planning should be undertaken by forecasting the likely changes in it.
- iii) **Helps to Identify threats:** Environmental awareness helps an organisation to identify threats to its business. Timely understanding of environment helps to make suitable changes in the organisation.
- iv) **Helps in Image Building:** Environmental understanding by the management build better image of the business firm in the minds of the people.
- v) **Helps in improving performance:** The enterprises that continuously monitor their environment are ones which not only improve their present performance but also continue to succeed in the market for a longer period.

3. Name & explain various components of business environment.

Ans: Following are the components of business environment:

- i) **Economic Environment:** Economic environment includes all those forces

which regulate resources, factors of productions, generation & distribution of income and wealth in social setup. The nature of economy, industrial policy, fiscal & monetary policies, income patterns, foreign exchange and business laws, demand patterns, capital market are the important elements of economic environment.

- ii) **Social environment:** – Social environment consists of all social & cultural forces within which firm operate. It consists of social setup, cultural moral, ethical values of society, standard of living of the people, tastes, preferences, education levels etc.
- iii) **Political environment:**– Political environment constitutes all the factors related to govt. affairs such as type of govt. in power, attitude of govt. towards different groups of societies etc. The businessman has to make changes in his organisation according to the changing factor of political environment.
- iv) **Technological environment:**–Technological environment relates to scientific improvement and innovations providing newer & better methods of production, new methods & techniques of operating business.

Recent technological changes in Indian markets are:

- a) Colour T.V. technology replacing black & white televisions.
- b) Photo copier and Xerox machines have led to the closer of carbon paper business.
- c) Computers and electronic Type writer have replaced traditional type writers.

4. Explain the new Industrial Policy/ Economic policy of 1991.

Ans: The new economic policy described as follows:

- i) **De-licensing:** The new policy abolished industrial licensing system for all projects except for six industries.
- ii) **Limited Role for public sector:** Except four industries, all other industries were opened for private sector.
- iii) **Liberalization of foreign investments:** Foreign investments were allowed over 50% in large number of industries, these investments could go up to 100% in some sectors.
- iv) **Liberalized foreign trade:** – Restrictions were removed on foreign trade. Import duties were cut and procedures were simplified.
- v) **Technology up-gradation:** – Permission was automatically granted to Indian companies for signing technology improvement agreements with foreign companies.
- vi) **Setting up of FIPB:** FIPB (Foreign Investment Promotion Board) was set up by the Government of India to promote foreign investment in India.

5. Discuss the recent changes that took place in Indian Economies.

Ans.: The recent changes that took place in Indian economics are as follows:

A. Liberalization: Liberalization means relaxing the business from direct control imposed by government. It is the process of removing various rules & regulations so that the business may operate & grow freely.

Following measures were taken in this direction:

- i) Licensing system was abolished except for six industries.
- ii) Private sector was allowed entry to all sectors except few. No restriction on expansion plans.
- iii) Freedom in fixing the prices of goods and services.

B. Privatization: Privatization means permitting to private sector to set up industries in the sectors which were initially reserve for public sector only. It enclosed transfer of ownership and management of public sector enterprises to the entrepreneurs in the Pvt. Sector.

Measures taken for Privatization:

- i) Disinvestment of public sector i.e., transfers of public sector enterprise to private sector.
- ii) Setting up of Board of Industrial & Financial Reconstruction to revive sick PSUs.

C. Globalization:- Globalization is the process of integrating the economy of one country with the economies of other country.

Following measures were taken in this regard:-

- i) The imports were liberalized by removing many restrictions.
- ii) Foreign Exchange Regulation ACT (FERA) was replaced by Foreign Exchange Management Act (FEMA).
- iii) Tariff structure was rationalized.

6. Discuss the impact of changes in economic/Govt. policy on business & industry in India.

Or

Explain the Effects/impacts of liberalization and Globalisation on business and industry in India?

Ans: The impact of government policy changes on Business & Industry in India are:

- i) **Increasing Competition:** As a result of changes in the rules of industrial licensing and entry of foreign firms, competition for Indian firms has increased.
- ii) **More Demanding customers:** Increased competition in the market gives the customers wider choice in purchasing better quality of goods and services.
- iii) **Market Oriented:** In the first changing world, there is a shift to market orientation in as much as the firms have to study the consumer's demand first and produce goods accordingly.
- iv) **Rapidly changing technological environment:** Increased competition forces the firms to develop new ways to survive and grow in the market.

- New technology makes it possible to improve.
- v) **Need for developing human resources:** The new market conditions required people with higher competence and greater commitment. This arises the need for developing human resources.

7. Explain briefly Internal Environment and External Environment of business

Ans.: Internal Environment: Internal environment consists of all those factors which are present within the business such as management plans and policies, attitude, Labour force etc.

External Environment: External Environment refers to all those factors which are outside the business such as govt. Laws, customers taste and habit etc.

8. What is SWOT analysis?

Ans.: SWOT refers to strength, weakness, opportunities and threats to the business. This analysis helps a business to know its strength and weaknesses.

9. Briefly explain the important components of Economic environment.

Ans: The important components of Economic environment are:

- i) **Economic Conditions:** Economic policies of a business unit are largely affected by the economic conditions (such as, standard of living, purchasing power of public, demand and supply) of an economy.
- ii) **Economic Systems:** Different countries of a world have different economic systems (like, Socialism, capitalism and mixed economy) and the prevailing economic system in a country affects the business unit to a large extent.
- iii) **Economic policies:** Economic policies affect the different business units in different ways. It may or may not have a favourable effect on a business unit.
- iv) **Global Economic Environment:** If any business is involved in foreign trade, then it is influenced by not only its own country's economic environment but also the economic environment of other countries.