

NCERT Solutions for Class 12 Business Studies

Chapter 3 – Business Environment

Very Short Answer Type:

1.

What is meant by business environment?

Ans: The business environment is external to the business organization, which includes three kinds of forces that are external: institutions and individuals. These forces can have several aspects to them that are social, economic, political, legal, or technological. The organization is not responsible for the happenings caused by these forces but can modify its results to be positive or negative. For instance, a product that is in demand in the market can be altered positively with much more efficiency and better design for further growth.

2.

How does understanding of business environment help in improving performance of a business?

Ans: Performance in an organization improves when modern plants and policies are made or adopted by getting a grasp of the business environment accurately. This will eventually lead to our stronger strategy to help in coping with the negativity in the market. And therefore, this will ensure the better performance of the organization altogether.

3.

Give an example to show that a business firm operates within numerous inter related factors constituting the business environment. (Hint: example highlighting the inter relatedness of dimensions of business environment).

Ans: A business organization includes various kinds of elements, and these elements determine the outcome or the performance of the organization. These various elements are economic, social, technological, and legal. For instance, let's talk about an automobile company that will be impacted by all these elements inside a business environment:

1. The business will be highly impacted if a global slowdown occurs or an economic setback happens. This will result in lower sales of cars being a factor affecting the business or organization.
2. Car manufacturers should stay updated with the upcoming technologies and introduce them according to their industrial criteria as a beneficiary. And this is how technology aids business development.
3. Car manufacturers profit through GST as GST has become UN negotiable for any kind of business and is a legal way to charge money, which again impacts the business environment.

4.

Krishna Furnishers Mart started its operations in the year 1954 and emerged as the market leader in the industry because of their original designs and efficiency in operations. They had a steady demand for their products but over the years, they found their market share declining because of new entrants in the field. The firm decided to review their operations and decided that in order to meet the competition, they need to study and analyze the market trends and then design and develop their products accordingly. List any two impacts of changes in business environment on Krishna Furnishers Mart's operations. (Hint: increase in competition and Market orientation).

Ans: Krishna Furnishers Mart can be affected by the environmental changes mentioned below:

1. More competitors, therefore tough competition.
2. Some basic and advanced changes should be made to make the product stand out from the competition.

5.

Name any two Specific forces of business environment affecting business.

Ans: Here are two specific forces of the business environment affecting business:

1. Customers change their tastes through time.
2. Competitors have better strategies than us.

Short Answer Type:

1.

Why it is important for business enterprises to understand their environment? Explain.

Ans: The improvement or decline of the organization is determined a lot by the business environment created. External factors can impact the organization in a stronger way than you can think of. Whereas once you understand the loop in which the external factors circuit itself, you can win all the challenges coming towards you.

The following points will give you a better grasp of the business environment or business enterprises:

1. Once you understand how to calculate the perfect timing of the launch of any business, you can stay one step ahead in the competition.
2. Once you study the business environment precisely, you can understand and identify the threats to your business. Therefore, studying the business environment can act like magic for the organization by neutralizing the threat.
3. Also, when you study your competition and the strategies they use, you will have a deep idea about the business itself, along with the business environment, and you can use this while creating the product and also in its launching strategy.
4. The business environment changes regularly. Any change in technology or consumer preferences, and there as any change in government policies, that affects the change in demand, and therefore studying the business before entering into it can give you wiser knowledge towards it and prepare you for the upcoming challenges.
5. Once you study the business properly, you will also get updated about the Brewing trends and how your product can add to the trend or the present scenario.
6. Learning all about the business environment is always a consequence of better performance of the organization.

2.

Explain the following terms:

a. Liberalisation Exercises

b. Privatization

c. Globalisation

Ans: (a) Liberalisation – The process by which the state's control is eliminated from economic activities is called liberalisation. It gives a greater hand to the business enterprises regarding decision-making and eradicates government interference. This liberalisation eventually results in

increased competition between the businesses, encouraging foreign trade between countries. This then resulted in the expansion of the business and creation of its Global footprint. The economy of a nation is developed by the opening of the economy as a flow of funds occurs from foreign resources.

(b) Privatisation – The process in which ownership is transferred from the public sector to the private sector is called privatisation or disinvestment in business. The main goal of privatisation is to reduce government ownership in industries. The workload decreases in the public enterprises, creating the way for economic development by encouraging Foreign Direct Investment (FDI).

(c) Globalisation – The integration of the national economy with the world economy is called globalisation. As a form of resources across different countries. It provides a free supply of information, technology, goods and services, ideas, capital, and even people. This also aids in improving the connection between several markets outside the border in the form of investments, trade, and cultural exchanges.

3.

National Digital Library of India (NDL India) work towards developing a framework of virtual repository of learning resources with a single-window search facility. It provides support to all academic levels including researchers, life-long learners and differently-abled learners free of cost. State the dimensions of business environment highlighted above.

Ans: The business dimensions are highlighted here:

1. A structure of a virtual repository of learning resources was developed, highlighting the technological dimension.
2. Researchers, learners, and differently-abled learners were supported free of cost, highlighting the social dimension.

4.

State the impact of demonetization on interest rates, private wealth and real estate.

Ans: Effects occurred due to demonetisation are:

1. Interest rates: Due to demonetization, the use of cash has almost been reduced. In the form of Jan Dhan Accounts, bank deposits increased. People of the nation started to focus on financial savings.

2. Private Wealth: As the old notes were cancelled therefore private wealth also saw a huge drop in the business. 3. Real Estate: Real estate prices fell during demonetisation. The whole real estate industry saw a drop in business.

Long Answer Type:

1.

How would you characterize business environment?

Explain with examples, the difference between general and specific environment.

Ans: All the forces, including external forces, institutional forces, and individual forces, basically all the forces present outside the business organization, make up the business environment. These forces can have a different nature, which varies by social, economic, political, or technological ways. The organization can't control these forces but can choose the impact it wants to give to the performance of the organization, either positively or negatively. Therefore, these are the basic characteristics of the business environment:

1. All external forces together make the business environment, including individuals, the government, and consumers. Each force either impacts the performance of the organization positively or negatively, but it never fails to impact.
2. Forces affecting the business environment are interrelated. For instance, when there is an increase in the annual income of the consumers, more goods they can afford to buy fulfilling their demands, which leads to an increased demand for electric appliances such as mobile phones and other electronic gadgets.
3. Nothing is static about a business environment, as we see changing trends, changes in consumer behaviour, changes in technology, and the policy of the government.
4. The business environment is something which you not never sure of, as the changes in the market dynamics are again something which you can never predict
5. All interrelated dynamic force comes together to create a business environment. Therefore, it is complex and hard to grasp all the factors, including social, political, and technological factors, which impact the performance of the organization or business. It is easier to change one particular force, but difficult to change it when it all works together
6. Each region has a different business environment, and the reason behind this different business environment is that the forces responsible for creating this business environment are never static and vary per region.

All interrelated external forces create a specific environment, which is then responsible for the performance of the organization directly. And it varies with each organization or enterprise. A

particular organization can be positively impacted by a particular factor, while it can be negative for a different organization. For instance, when the price of raw material falls, production increases as it supports the budget, but in the same way, when the price of the raw materials increases, production comes back to what it was previously or nearby that.

All industry and all organizations consist of all the forces in the general environment. These forces do not care about the type of industry or the type of business it is; therefore, without any partiality, they judge the organization's performance. For instance, when a new technology of communication comes, it knowingly or unknowingly affects the quantity and quality of production in the same way as a change in government affects the organizations.

2.

How would you argue that the success of a business enterprise is significantly influenced by its environment?

Ans: No organization can work totally on its own. It is always influenced by several political, legal, social, and technological dimensions, and these dimensions are responsible for the business environment of an organization. Understanding this business environment is a very important step for any business, and understanding this typically means understanding the bricks of a building. Therefore, you start knowing the loopholes much better.

This is how the business environment stands as a vital reason for the growth of the business:

1. A new business environment promotes a new opportunity for a new business idea. Only if you carefully observe the business environment can you identify these opportunities, and it works like first start better scope, that is, if you are among the people who first started the business, you get a better seat in the competition coming towards you.
2. Studying the business environment is so helpful as it aids in understanding the challenges of the business and taking preventive measures accordingly.
3. Sources like machinery, raw materials, labour, etc., which are necessary for an organization, are provided by the environment and then converted into the product demanded by the market.
4. There is nothing static in a business environment. Constant change occurs everywhere. Once you understand the business environment, it helps you get organised and better in the business itself
5. When the business environment is studied, various threats and opportunities will be discovered. After formulating all the plans and policies, the business could be brewing according to the market's present scenario. 6. When one knows about the threats and the opportunities, they can adjust to these changes more practically, keeping in mind their performance. Knowing about the whole scenario makes you prepared for your best performance.

3.

Explain, with examples, the various dimensions of business environment.

Ans: The following dimensions are present in the business environment:

1. Economic: Variables including income, stock markets, and interest rates, which are interrelated to the functioning of business enterprises, together make the economic dimension. For instance, a growth in the buying power of consumers means higher demand for goods and services, and vice versa.
2. Social: Several factors, including tradition, trends, social values, and cultures it come together to form, social dimension. For instance, during a religious occasion, goods catering to that would bring profit to the business.
3. Technological: All the technological modifications and growth happening in the business are covered by this dimension. For instance, we can talk about the introduction of computers in the business world, which changed almost everything, along with the invention of mobile phones. And when a business doesn't get itself updated with modern technology, it fails to compete.
4. Legal: The legal rules and legislation that are passed by the government create this dimension, and not following them can bring legal struggle for the business. For instance, when you set up a company under the Companies Act and don't follow the law, this will put the company in trouble.
5. Political: Peace, law, order, and stability create a political dimension. When there is a change in government, it also results in a change in rules and policies. But if there is frequent change in government and therefore frequent change in policies, it can result in the investor losing interest, but when you lessen the rules, investment increases. For instance, when the new policy of 1991 came, the Indian economy got a sudden spike.

4.

The Government of India announced Demonetization of ₹ 500 and ₹ 1,000 currency notes with effect from the midnight of November 8, 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 and 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. a. Enumerate the dimensions of business environment highlighted above. b. State the features of Demonetization.

Ans: a. The business environment is seen to be highlighted here:

1. Political: Starting from midnight of November 8, 2016, the government declared demonetization of the ₹ 500 and ₹ 1,000 currency notes. This was started by the illegal use of money by some people.
2. Legal: Instead of ₹500 & ₹1,000, ₹500 & ₹2,000 became the new legal tender.
3. Technological: Technology launched online payment through e-wallets like Paytm and other cashless transactions. This started to happen due to demonetization and lower cash availability.

b. Features of demonetization are:

1. To expose black money holders and people who evade tax, demonetization was established.
2. People's savings increased, which put them in the bank rather than the house.
3. The interest rate in banks is being studied for reduction.
4. Digital payments and reduced fraud were promoted.

5.

What economic changes were initiated by the Government under the Industrial Policy, 1991? What impact have these changes made on business and industry?

Ans: In 1991, this industrial policy was introduced, these being the following major highlights of the policy:

1. As the system of licensing was cancelled by the new industrial policy of 1991, it helped the private sector to start and then expand without a licence. Exceptions were the industries that manufactured cigarettes, liquor, defence equipment, pharmaceuticals, and dangerous chemicals.

2. The public sector started to get demolished while the private sector expanded to its fullest, operating across industries. Only some selected industries were under direct control of the government, for example: industries related to atomic energy, railways, and atomic minerals.
3. Beforehand, the companies asked permission from the government before expansion, but now, after the new policy was introduced, companies don't even do so. As this new policy's idea was to relax these rules for companies worth 100 crores, as these companies are capable of fluctuating their products according to the demand of the customer, which is the demand of the market too.
4. According to this new policy, the import of capital goods from foreign countries by the industrialists is allowed, along with 100% of FDI.
5. When talking about small-scale industries, we always remember about reforms. This is because the investment has increased to 1 crore. This, for instance, pushes the industry to grow and contribute to the GDP of the nation. And also, the introduction of technology has a higher hand in the development of these kinds of small-scale industries.
6. The disinvestment concept was also encouraged through this particular policy, allowing the government to sell stakes to the private sector, giving an unsaid responsibility to introduce the public sector with some monetary benefits.
7. Foreign investment in India was inspired and motivated by a board, which was called the Foreign Investment Promotion Board.

Here are the ways these changes impact both the business and the industry:

1. As the pressure regarding both licensing policy along import duties is minimised, more firms are entering the field to launch their product as it is easier, but this leads to huge competition too.
2. Because of the brewing marketing, the number of customers for a particular product is increasing immensely. Therefore, the demand should be matched by the supplier, keeping the quality of the product in mind.
3. With the changing government policies, the firm's policies also change, resulting in its profit. Thus, stay updated, keeping in mind the government rules and regulations
4. This is the right time to use technology to its fullest strength, because all the firms do so to improve their product quality and to go ahead in the competition.
5. Because the employees are the base of any organization. Therefore, no matter what kind of product it is, the men/employees should be well-trained. Because skill is the foundation of any organization. Thus, employee capability and intelligence a very important aspects in the growth of any business or organization.

6. Whatever product is launched by the businesses should be done purely based on customers' changing demand and its market valuation.

7. To stay in the competition with the private sector, the public sector should work more vigorously and not just rely on the government fund, but also generate funds from other reliable sources.