

NCERT Solution for Class 12 Business Studies Chapter 3 - Business Environment

Very Short Answer Questions NCERT Business Studies Solutions Class 12 Chapter 3

1. What is meant by business environment?

The sum of all the forces (external, institutions and individuals) that are outside the control of a business organisation is referred to as the business environment. The forces mentioned here can be of varied nature such as social, economic, political, legal or technological. The organisation is unable to control such type of forces, but it can definitely have a positive or negative impact on their performance. For e.g. altering the design of a product delivering efficiency leads to its demand in market whereas below par performance and decline in design will result in making the product inferior.

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

Understanding the business environment properly by the organisation results in developing plans and policies according to the environment which results in great improvement in performance. It also helps to counter any negativity that may exist in the market with a well-defined strategy. This will help an organisation perform at best every time.

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).

The various elements of a Business organisation are interrelated to each other and the outcome depends on all these elements. Business environment consists of following elements economic, social, technological, legal.

Let us understand by one example

An automobile company will have the combined impact of all these factors in context of a business environment.

1. If there is a global recession or economic slowdown, it will result in less sales of cars. Economic factor comes into play for purchasing car and it will impact the business.
2. Due to introduction of new technology the car manufacturers need to follow that as industry standard which will be beneficial for the organisation. This is the impact of technological factor on business environment.
3. With introduction of GST now car manufacturers can charge GST and GST is mandatory for business which is a legal factor impacting business environment.

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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).

The following impacts can be seen with changing of business environment for Krishna Furnishers Mart's

1. Rise in competitors leads to more competition.
2. Innovation in design needed to differentiate product from competitors.

5. Name any two Specific forces of business environment affecting business.

Specific forces have a direct impact on the way a business is run. It can be due to the following changes:

1. Changing tastes of customer.
2. Competitor strategy
3. Shift in investor loyalty

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

It is very essential to understand business environment as it helps in determining success or failure of an organisation. The functioning and performance of an organisation is dependent on various factors which can be external. When we understand business environment it becomes easier to drive factors that help in growth.

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Following points highlight the importance of understanding the business environment for business enterprises.

1. Business enterprises can identify the positive opportunities for a business. It will help in making the first move and stay ahead of competition.
2. Businesses can identify the potential threats by studying the business environment which can impact the growth of the organisation. Therefore, a study of business environment proves beneficial for identifying threats and determining the best solution to neutralize the threat.
3. Various resources are required for a business to run and the appropriate resources are determined by studying the local business environment. These inputs are used to create various products.
4. Business environment is of dynamic nature, the factors such as technology, consumer preferences and government policies are subjected to change based on demand. Knowing the business environment will make things easier to adapt easily with the change.
5. Study of business environment helps in formulating new plans and policies as per the market trends which makes it more relevant for the current scenario.
6. Analysing of business environment will result in a better performance for the organisation.

2. Explain the following terms:

(a) Liberalisation

(b) Privatization

(c) Globalisation

(a) Liberalisation

Liberalisation is the process or means of the elimination of the control of the state over economic activities. It provides greater autonomy to the business enterprises in decision-making and eliminates government interference.

The purpose of liberalisation is to increase competition between enterprises. It also encourages foreign trade between countries. It also helps the business expand its global footprint. The opening up of the economy

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improves the economic development of a nation by the inflow of funds from foreign resources.

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(b) Privatization

Privatisation can be explained as the process of transfer of ownership from the public sector to the private sector. It is also known as Disinvestment in business. Privatisation aims at reducing government ownership in industries.

It reduces the workload on the public enterprises and also paves the way for economic development by encouraging foreign direct investment (FDI).

(c) Globalisation

Globalisation can be understood as the integration of the national economy with the world economy. It represents a free flow of information, technology, goods and services, ideas, capital, and even people as a form of resources across different countries. Globalisation helps in improving the cross border connectivity between different markets in the form of investments, trade, and cultural exchanges.

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

Government policy has the following impact on the business and industry

1. By relaxing the licensing policy and reducing import duties, domestic firms face tough competition. More players will be in the field with their offerings which leads to more competition.
2. Due to increase in competition, the consumers are flooded with choices for goods and services. This leads to increase in demand of consumers for better quality goods and services.
3. Government policy changes result in changes in the business policies of the business enterprises for sustaining and making profit while following the current policies set by government.
4. With increasing competition firms need to reach customers with products and hence they adopt more innovative ways to promote their product by using updated technology.
5. All the improvements in technology and product are possible with the help of trained manpower. Without proper skills no organisation will be able to execute any plans properly. Therefore, improvements in human resources is very important in the current context.
6. Market orientation has become important as customers have become more demanding and hence businesses need to analyze the market before launching any product.

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7. Public sector enterprises need to perform more efficiently in order to survive the competition and stop relying on the government funds.

4. National Digital Library of India (NDL India) is a pilot project initiated by the HRD ministry. It works 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.

The following business dimensions are highlighted here:

1. By developing a framework of virtual repository of learning resources it highlights the technological dimension.
2. By supporting researchers, learners and differently abled learners free of cost it highlights the social dimension.

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

Demonetisation had the following effect on these sectors

1. Interest rates: As demonetisation happened the number of cash transactions reduced; bank deposits increase in form of Jan Dhan Accounts. More financial savings by the people of the nation.
2. Private Wealth: Private wealth saw decline as large volume transactions were not possible with old notes.
3. Real Estate: Demonetisation led to the decline in price of property. Real estate industry saw huge drop in business.

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Long Answer Questions NCERT Business Studies Solutions Class 12 Chapter 3

1. How would you characterise business environment? Explain, with examples, the difference between general and specific environment.

The sum of all the forces (external, institutions and individuals) that are outside the control of a business organisation is referred to as the business environment. The forces mentioned here can be of varied nature such as social, economic, political, legal or technological. The organisation is unable to control such type of forces, but it can definitely have a positive or negative impact on their performance.

The following are the characteristics of business environment:

1. Business environment is the sum total of all external forces which includes individuals, government, consumers. These have an impact on the business performance that is either positive or negative.
2. The different forces that have an impact on the business environment are inter related. This inter relation has an effect on the business environment. for e.g. if there is an increase in the annual income of the consumers, they are more likely to purchase goods that fulfil all their demands and this leads to increase in demand for electric appliances, mobile phones, gadgets etc.
3. Business environment is constantly evolving and therefore is dynamic in nature. This can be explained as we see changing trends in consumer behaviour, technology and policies of the government.
4. The business environment is an uncertain territory. The changes in the market dynamics cannot be predicted easily. Due to which there exists an uncertainty.
5. Business environment is the sum total of all interrelated dynamic forces. Hence, it is somewhat complex and difficult to understand. All the factors like social, political, technological etc have an effect on the performance of the organisation. It can be easy to ascertain the individual impact of all the forces; it can be difficult to determine their cumulative effect.
6. Business environment varies with each region and hence is relative. The reason behind the variation in business environment is that the forces that determine the nature of business environment are dynamic in nature and therefore change as per region.

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Specific environment is said to be the external forces that play a role in functioning of an organisation directly. These forces are specific to a particular organisation or an enterprise. Specific environment is unique to a industry and has an impact on how the day to day business is run. For example, change in price of a raw material required for production will result in less demand and abundant supply of raw materials has a direct impact on the production of the company.

General Environment comprises of all the forces that has an impact on all organisations irrespective of the type of industry. These forces do not differentiate between the industries or types of business. They have a cumulative effect on the organisation's performance. For example, a new technology for communication will have a impact on the quality and quantity of production or if there is a change in government then it will have an effect on all organisations.

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

Any organisation is unable to function on its own. It is influenced by the various forces such as political, legal, social, technological. These forces form the business environment of an organisation. It is essential that an organisation has a good understanding of its business environment. It enables an organisation to identify that help or those that obstruct the growth of organisation, knowing them well will help in reacting better to these forces.

Success of a business is influenced by its environment in the following ways:

1. Whenever there is a change in the business environment, it provides the opportunity to start fresh. Careful observation of the business environment is helpful in identifying these opportunities. It also gives the first movers advantage to the business. Organisations can reap maximum benefit in comparison to its competitors.
2. Studying of business environment helps in identifying threats for the business. It helps take preventive measures in order to counter those negative forces.
3. Environment provides source or inputs such as machinery, raw materials, labour etc which are essential for an organisation. Therefore, it makes sense for the organisations to choose those resources from the environment and convert into desired products.
4. Business environment is dynamic in nature. There is a constant change in the factors that make up the business environment. Having a good understanding of the business environment helps cope up with the factors better and help organisations derive benefit from them.

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5. As various threats and opportunities are discovered during analysis of the business environment. The business can thus formulate plans and policies that will be appropriate for the market in the existing scenario.
6. Knowing about the threats and opportunities helps one improve their performance by adapting to these changes in a more informed manner. Being prepared for the situation helps in providing the best performance.

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

Business environment has the following dimensions:

1. **Economic:** The economic dimension consists of economic variables such as income, stock markets, interest rates that are directly related to the functioning of business enterprises. For example, if there is an increase in purchasing power of consumer it automatically leads to increase in demand of goods and services whereas if purchasing power is low there is a decrease in demand.
2. **Social:** The social dimension comprises of various traditions, trends, social values, cultures. For example, companies can use religious festivals to produce items that cater to the occasion.
3. **Technological:** This dimension comprises of all the technological changes and improvements that are happening in the business. There can be many examples like introduction of computers which changed the way information was gathered to the more recent developments in mobile and internet. Business not updating themselves in the technology field can find themselves in spot of bother with competitors.
4. **Legal:** This dimension consists of the various legal rules and legislations that are passed by the government. Non-compliance can lead to legal trouble for the business. For example, setting up of a company is governed by the Companies Act, not acting according to the law will result in company facing legal hassles.
5. **Political:** Political dimension consists of peace, law and order, stability. If there is a change in the government there will be a change in the rules and policies. Frequent changes in administration can result in losing of interest of investors. Also relaxing of rules can encourage investment. Such an example is of forming of new policy in 1991 that opened the Indian economy to the world.

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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.

The 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.

a. The following dimensions of business environment are seen to be highlighted here:

1. Political: Government has announced demonetisation of the ₹ 500 and ₹ 1,000 currency notes with effect from the midnight of November 8, 2016. It is a step by government in curbing the illegal use of money by some entities.
2. Legal: 500 and ₹ 1,000 currency notes stopped being the legal tender and introduction of ₹ 500 and ₹ 2,000 became the new legal tender.
3. Technological: As demonetisation happened there was shortage of cash, it encouraged the use of digital forms of payment in form of e-wallets like Paytm and other modes of cashless transactions.

The following are the features of demonetization:

1. Demonetization was done with the intention of exposing black money holders and those who evade tax.
2. Increase in savings of people. Earlier more people used to keep money at home rather than at bank, this step resulted in savings in bank.
3. It helped in reducing the interest rates in banks.
4. To popularize the use of digital payments and reduce frauds.

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

The Industrial policy was introduced in 1991. Following are the major highlights of the policy:

1. As per new Industrial policy 1991, the system of licensing was abolished. This helped the private players in starting a new venture without the need for obtaining license. Some industries were not exempt such as cigarette, liquor, defence equipment, pharmaceuticals and dangerous chemicals.
2. There was a considerable reduction in the number of industries that were marked for public sector. The private sector was given the liberty to operate across industries. The government chose to keep only selected industries under direct control which were atomic energy, railways and atomic minerals.
3. Before the new policy was introduced the companies needed to seek permission from the government for expanding the production. The new policy relaxed these norms for companies which were having asset base of 100 crores. These companies can increase production as per the market requirements.
4. The new policy allowed the industrialists to import capital goods from foreign countries and even allowed 100% of FDI in such cases.
5. There was a reform in the definition of the small-scale industries, the maximum limit of investment was increased from 5 lakh to 1 crore. This step helped the industries to develop and contribute more to GDP of nation. Industries became more modern with new technologies that made work easier for the small-scale industries.
6. This policy also introduced the disinvestment concept which allowed government to sell some stake to the private sector in order to bring development and monetary benefits to the public sector industries.
7. A board was setup for encouraging foreign investment in India, it was called Foreign Investment Promotion Board.

The following were the impact of these changes in business and industry:

1. By relaxing the licensing policy and reducing import duties, domestic firms face tough competition. More players will be in the field with their offerings which leads to more competition.

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2. Due to increase in competition, the consumers are flooded with choices for goods and services. This leads to increase in demand of consumers for better quality goods and services.

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3. Government policy changes result in changes in the business policies of the business enterprises for sustaining and making profit while following the current policies set by government.
4. With increasing competition firms need to reach customers with products and hence they adopt more innovate ways to promote their product by using updated technology.
5. All the improvements in technology and product are possible with the help of trained manpower. Without proper skills no organisation will be able to execute any plans properly. Therefore, improvements in human resources is very important in the current context.
6. Market orientation has become important as customers have become more demanding and hence businesses need to analyze the market before launching any product.
7. Public sector enterprises need to perform more efficiently in order to survive the competition and stop relying on the government funds.

6. What are the essential features of

i. Liberalisation

ii. Privatisation

iii. Globalisation

i. Liberalisation

Liberalisation is the process or means of the elimination of the control of the state over economic activities. It provides greater autonomy to the business enterprises in decision-making and eliminates government interference.

The purpose of liberalisation is to increase competition between enterprises. It also encourages foreign trade between countries. It also helps the business expand its global footprint. The opening up of the economy improves the economic development of a nation by the inflow of funds from foreign resources.

Essential features of liberalisation are:

1. Liberalisation brought about the abolition of licensing policies. Only a handful of industries were retained such as cigarette, liquor, defence equipment, pharmaceuticals and dangerous chemicals.

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2. Business can decide on the quantity of goods they want to produce as per market conditions. This is applicable for those companies which have an asset base of 100 crores.
3. Liberalisation helped in removal of various trade restrictions, tariffs, duties which helped in easy movement of goods and services.
4. Liberalisation helped in encouraging foreign direct investment and increased the competition attracting foreign service providers.

ii. Privatisation

Privatisation can be explained as the process of transfer of ownership from the public sector to the private sector. It is also known as Disinvestment in business. Privatisation aims at reducing government ownership in industries.

It reduces the workload on the public enterprises and also paves the way for economic development by encouraging foreign direct investment (FDI).

The essential features of privatisation are:

1. Government adopted two different methods for disinvestment. In this the first method was selling a part of equity in one of the PSU's and the second process was of strategic selling of PSU's. With these methods many of the firms were sold off. This include major companies like Maruti Udyog, BALCO etc.
2. A board was established that was specially entrusted with the revival of companies that were sick or loss making. It was known as Board of Industrial and Financial Reconstruction.
3. In privatisation, the role of public sector was reduced substantially with only 8 companies under the government control. In the present condition only 3 industries are under government and these are atomic energy, railways and atomic minerals.
4. For improving efficiency among public sector companies and increase the level of professionalism the government decided to honour the title of Navaratna to all the 9 high performing PSU (Public Sector Units).

iii. Globalisation

Globalisation can be understood as the integration of the national economy with the world economy. It represents a free flow of information, technology, goods and services, ideas, capital, and even people as a form of resources across different countries. Globalisation helps in improving t cross border connectivity between different markets

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in the form of investments, trade, and cultural exchanges.

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Following are the essential features of globalisation:

1. It removed or reduced all the trade barriers such as tariffs, trade restrictions, custom duties etc which resulted in more business to and from India.
2. Export and Import duties were reduced which helped in promoting the free trade between India and world.
3. The aim of globalisation was to encourage setting up of foreign capital in form of FDI (Foreign Direct Investment), it also resulted in formation of SEZ (Special Economic Zones) and creation of FEMA (Foreign Exchange Management Act).