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BUSINESS ENVIRONMENT

By:

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**Sample Preview
of the
Solved
Sample Question
Papers**

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QUESTION PAPER

(June - 2019)

(Solved)

BUSINESS ENVIRONMENT

Time: 2 Hours]

[Maximum Marks: 50

(Weightage 70%)

Notes: Attempt both Parts A and B.

Q. 1. What are the long-term goals of planning in India? Discuss achievements and failures of planning in India.

Ans. Objectives of Planning Commission: The long-term goals of planning commission were:

- To increase and optimise production level to maximum, to increase national and per capita income.
- Encourage industrialisation with emphasis on core and heavy industries to attain self-reliance.
- Attainment of full employment.
- Reduce socio-economic and income inequalities.
- Establish socialistic system based on social justice, equality and absence of exploitation.

These objectives were formally stated in the First Five Year Plan which was released in 1952.

Maximum production and full employment, the attainment of economic equality or social justices, which constitute the accepted objectives of planning under present day conditions are not really so many different ideas by a series of related aims which the country must work for. None of the objectives can be pursued to the exclusion of others, a plan of development must place balanced emphasis on all of them.

Also Ref.: See Chapter-2, Page No. 10-11, 'Achievements and Failures of Planning (1951-1990)' and Page No. 11, 'Failures of Planning'.

Q. 2. Define 'business environment'. What are the three components of business environment. Explain their impact on business.

Ans. Ref.: See Chapter-1, Page No. 1, 'Meaning and Significance of Business Environment' and Page No. 7, Q. No. 2.

Also Add: Business and Environment Interface: Business and its various elements are influenced by various environmental/external factors. Environment

acts both-as a stimulant and a constraint for business. Environment is dynamic (ever-changing) and when the external environment is conducive, businesses must react accordingly on the available opportunities to grow the business. For example, tax-holidays, tax-rebates, downwards revisions in custom duties, subsidies, etc. moot business in various ways. Similarly, certain changes in external environment may have a negative influence on business prospects and processes.

Business and external environment may interact directly or indirectly. In direct effect, changes in the external environment have a direct impact on the business. For example, if the government increases Tax-incidence on corporate profits, it inversely affects the interests of large corporate, but indirectly motives small business.

Firms must change business policies and strategies in response to environmental changes (incurred or expected) in the external environment. External environment comprises of economic and non-economic factors.

Economic environment refers to the economic system, economic conditions and policies. State of economy, development stage, income level, resources, income and wealth distribution and nature of economy, signify the economic conditions. Economic system can be capitalistic, communist or mixed.

The non-economic environment of a business comprises of country's history, social, cultural, legal and political system. The economic and non-economic factors are interdependent and mutually exclusive. These interact with each other closely and collectively influence a business. For example, the stage of economic development (economic factor) affects the education system (non-economic factors) in a country. For example, in developing countries education system offers education at various level –

primary, middle, higher, in addition to vocational training and other professional courses which positively affect employment rate.

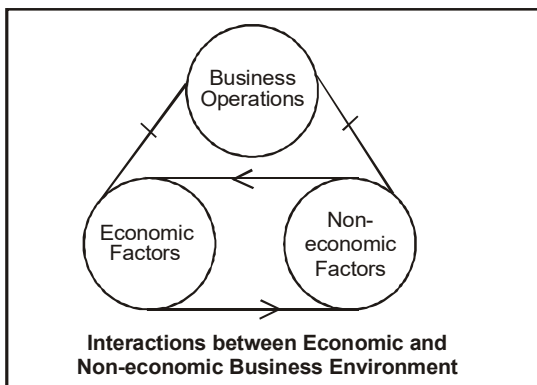
Similarly, political-legal environment directly influences business strategies and processes. The government interferes with business in order to regulate and promote these in the socio-economic interests of the nation.

Business activities influence ecological/physical environment. The size of plant, production process, outputs, by-products; etc, may cause environmental deterioration, which becomes a matter of concern. Thus government regulates the business activities by passing environment protection and conservation laws. These laws, in turn affect the way companies conduct their business. In wake of rising awareness about environment, increasing number of concerns have started going 'green'.

The internal environment of a business is also influenced by external environment. Business planning, organisation, co-ordination, control, direction and business functions (purchasing, production, marketing, distribution, human resource management, finance) are affected by changes in external environment. For example, in recession, companies resort to various cost-cutting measures like – retrenchment, production slow-down, narrow marketing and promotional budgets, etc. When government liberalises its economic and regulatory policies and business get boost.

Business operations are also influenced by economic and non-economic factors. Business strategies, top level planning are directly affected by changes in government policies and other external factors. It is important that a business aligns itself according to strategic changes at operational level to sustain.

The interactions between business operations, economic and non-factors is circular, with one factor influencing other. It is rather different to find the start and end of interactions as these are closely related and bound.



The challenge before any business is to change itself with changes in the external environment. Business must follow the following guidelines to met these challenges:

- Formulate flexible policies
- System of incentive must be conducive and as per changes in external environment
- Adopt better information system to keep track and predict changes
- Continuous interaction with people and government to understand gaps and need for changes
- Increase efforts which helps in enable adjustments and helping in increasing efficiency.

Q. 3. Discuss the regulatory and entrepreneurial role of government in business.

Ans. Ref.: See Chapter-5, Page No. 49, Q.No. 2 and 3.

Q. 4. Define 'monetary policy'. What are the instruments of monetary policy used in India? Explain them briefly.

Ans. Ref.: See Chapter-6, Page No. 60, Q. No. 1 (iii) and Page No. 57, 'Instruments of Monetary Policy in India'.

Q. 5. What are the causes of industrial sickness? Discuss the various measures taken by the Government to overcome this problem.

Ans. Ref.: See Chapter-9, Page No. 84, 'Causes of Industrial Sickness', Page No. 85, 'Government Policy' and Page No. 91, Q. No. 8.

Q. 6. State the causes of industrial disputes in India. Discuss the various measures taken by the Government of India for the prevention and settlement of industrial disputes.

Ans. Ref.: See Chapter-10, Page No. 101, Q. No. 2 and Page No. 102, Q. No. 3.

Q. 7. What is foreign capital? Discuss its role and shortcomings.

Ans. Ref.: See Chapter-12, Page No. 112, 'Foreign Capital' and Page No. 115, 'Role of Foreign Capital'.

Q. 8. What are the causes of deficit in balance of payments? Discuss the measures adopted by the Government of India to solve this problem.

Ans. Ref.: See Chapter-14, Page No. 138, Q. No. 1 and Page No. 141, Q. No. 3.



Sample Preview of The Chapter

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BUSINESS ENVIRONMENT

INTRODUCTION TO BUSINESS ENVIRONMENT



Nature and Dimensions of Business

INTRODUCTION

Business is an activity that aims at earning profit by indulging in various 'economic activities' like consumption, distribution, production, exchange, trading, transfer, selling, purchase; etc.

A business unit can be in different forms-sole proprietorship business, enterprises (small/medium/large), corporation, partnership firms, ventures, organisations, trusts, conglomerates, merchant establishments; etc.

From macro-economic point of view, the main aim of a business undertaking is to maximise the outcome of economic activities. At micro-economic level, a business is considered as an economic unit, whose function is to transform a set of inputs into output, and utilise the surplus, with an objective to earn profit. The output or product of such economic activity can be goods or services. To maximum earn profits; the inputs (resources) must be carefully planned and consider changes in external environment which tend to influence firm's business.

As mentioned, business involves several related economic activities. While performing these business activities, a firm has to take several decisions and choose from the various alternatives. A firm's business is also affected by various variables which may be in control of the firm or outside its control. The variables/factors which are uncontrollable form external environment of the business.

External environment variables include social, legal, political and economic factors. Business strategy, policies and their implementation largely depends on these external variables.

CHAPTER AT A GLANCE

MEANING AND SIGNIFICANCE OF BUSINESS ENVIRONMENT

Environment refers to set of external factors/variables and forces which tend to affect a firm and are out of its

control. Activities of a firm have an influence on external environment, but a firm cannot individually influence the external environment.

External variables are interdependent and mutually exclusive. Hence these are difficult to classify. Broadly, environmental factors can be economic or non-economic factors:

- Economic variables are directly related with economic issues like fiscal policy, monetary policies and measures, income level; etc.
- Non-economic factors are non-economic in nature and include factors like religion, culture, traditions, values and other demographic aspects like age, sex, education level; etc. These factors though non-economic in nature, tend to influence the way a firm conducts its business.

Sometimes economic and non-economic factors are closely related and interact with each other. At times these are difficult to classify/identify and hence are studied collectively. For example, while studying socio-economic factors, we study the impact of social changes on business and economy, and also the impact of changes in economy on society at large.

Business environment is dynamic and can be classified on following criteria:

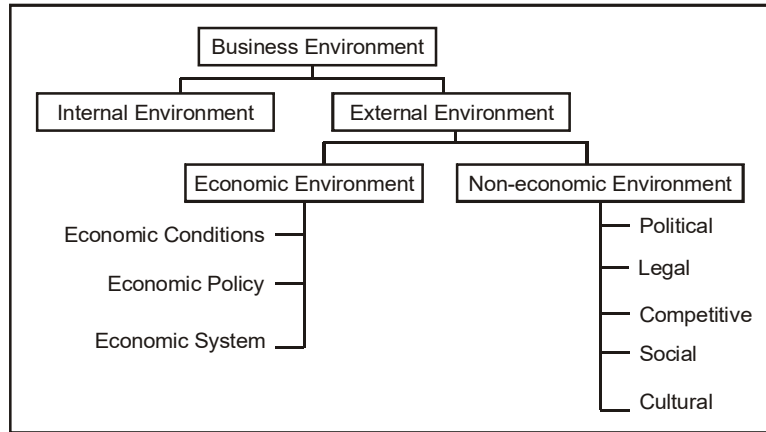
1. Time (past, present, future business environment)
2. Space (regional/local, national, international)
3. Forces (market forces, political forces, social changes)
4. Factors (economic/non-economic)

COMPONENTS OF BUSINESS ENVIRONMENT

Business environment can be broadly classified into internal and external environment. Internal environment comprises of factors which are within the control of the firm, for example, firm's resources, management, organisation structure, policies and objectives.

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External environment comprises of factors which are not related with the firm and are outside its control.



Internal Environment: It refers to factors which are within control of the firm.

External Environment: It comprises of factors which are outside the control of firm/organisation and have a bearing on the business strategies adopted by the firm. In general parlance, business environment referred to is usually external environment. External environment of business comprises of:

1. Economic Environment
2. Non-economic Environment

Economic Environment of Business

Economic environment of business comprises of:

1. Economic Conditions
2. Economic Policy
3. Economic System

Economic conditions refer to state of economy, development stage, income level, resources, income and wealth distribution and nature of economy.

The nature of the economy signifies the distribution of resources and concentration of economic power. Depending upon nature, economy can be capitalistic, communist economy or mixed economy.

In a capitalistic or free market economy, private players have freedom to own resources/factors of production (land, labour and capital) and take independent economic decisions. In capitalistic economy, means of production are privately owned and guided by private profit motive. Here the individuals and organisations owning the means of production have the freedom to own resources and take independent economic decisions.

On the other hand in a socialistic or communistic economic system, the factors of production are largely or wholly owned by the government. There is negligible private ownership of means of production. Here consumption patterns are determined and enforced by the state. This type of economy is also called 'centrally planned economy'.

Economic Systems (Broad Classification)		
Capitalistic Economy	Socialistic Economy	Mixed Economy
US France UK Germany	China North Korea Soviet Union Poland Hungary	India

In mixed economic system public sector co-exist with the private sector, with both private individuals and government holding a significant portion of production units. In a mixed economic system, factors of production are largely owned by the private individual with small government holdings. Hence it is also called 'Mixed Capitalistic Economic System'. Most Asian countries, including India have a mixed capitalistic economic system. Presently, most countries have a mixed economic system, with some private ownership and some government ownership, as both are capitalistic and socialistic economic systems are extreme approaches. Over the years, economic reforms have been introduced to balance economy in the interests of nation. For instance, United State was predominantly a capitalist system at start. Over the years, it has been realised that state intervention is must and hence the role of government has increased to stabilize the economy and maintain orderly market conditions. Similarly, Chinese economy was largely socialistic during formative years, has been transcending into mixed with increased participation of private players.

In India, mixed economic system was proposed by the then Prime Minister, Shri Jawahar Lal Nehru, with leading role of public sector. Over the years, many reforms have been introduced and economy has been liberalised for increased participation of foreign and private players.

Economies can be market-driven or planned economies, on basis of extend of market mechanism allowed in distribution and allocation. In market economies, prices are determined by market forces. In the planned or command economies, price are dictated by central planning authorities.

The economic system in a country depends on its government and people, and a firm has no control over it. However, policies and practices of a firm depends on the type of economy and it is very important that the management considers the existing state and nature of economy.

Non-economic Environment of Business

Non-economic environment of business comprises of country's history, social, cultural, legal and political system. The economic and non-economic factors are interdependent and collectively influence a business.

1. Sociological Factors: Sociological factors includes the following:

1. Attitude of society towards authorities, managers, income level, status, spending, achievement, power, wealth delegation and worker participation.
2. Attitude towards Class (social classes) and structure.
3. Prevalent caste system and other social barriers
4. Attitude towards Labour mobility (migration to other states/countries).
5. Attitude towards knowledge acquisition, education, training and development.
6. Social values and beliefs, customs, culture, values (religious and social).
7. Spending, saving, consumption behaviours and patterns.

The above social-cultural and socio-educational factors have a profound impact on the way firm conducts its business and it is necessary that strategy of a firm is in accordance with these sociological factors.

Sometimes, social inertia or resistance affects marketing of products. In such cases, the market strategy must be aligned along the social system and in long run work to induce gradual changes in the system.

Consumerism

Consumerism is a latest phenomenon which originated when the expectations of the customers from the business units were more than they were served. Consumerism, in other words, is a term symbolising the customer protection movement which denotes a kind of an organised effort of consumers. These consumers are concerned with increased rights of consumers in society and are also interested in bringing an end to the malpractices of business community.

Consumer Movement in India

Consumer movement exists at a nascent stage in India. It is moving though on a snail's pace. Several consumer organisations have come up in India to make people aware of their rights and duties. There is a consumer protection act that promises right to safety for customers, right to be informed for them, right to choose, right to be heard, right to redressal and right of consumer education.

In other words, consumerism could be defined as an organised effort of consumers. These are the people who are concerned with increased rights of consumers in society, who are oriented towards ending the malpractices

of business community and so on. It can be defined as a movement that is placing stress on protection of certain economic interest and also on physical safety.

Consumerism in India is still at budding stage, It is growing, but at a slow pace. Consumer movement in India marked a silent revolution by making the people aware of their rights at different stages.

The first stage was when the consumer was made aware by penning down articles in newspapers and magazines. People was also made speeches in public places. The second stage boycotting of goods and holding demonstrations. Thus, there came a third stage where there was lobbying, advocacy, litigation and laboratory testing done for the products with which the customer was not satisfied.

Finally, there came the fourth stage that witnessed the introduction of Consumer Protection Act, 1986 that is a landmark in the Indian history.

2. Demographic Factors: Demographic environment refers to population size and growth rate. Population has two aspects—quantitative and qualitative. Quantitative aspect refers to number and depends on demographic composition (age, sex, mortality rate, birth rate). Qualitative aspect of population is determined on basis of literacy/education level, health, nutrition, general living conditions and experience of population.

Population has a direct effect on demand-increase in population increases labour supply on hand and demand on another. Increase in labour, encourages labour intensive techniques. Similarly, labour shortage leads to development of labour-saving technologies. Increased demand and labour supply has encouraged multi-national companies to enter markets of developing countries.

3. Competitive Environment: Competition which exists due to presence of other players in the market, affects the business strategy of a firm. Competition can be of three types:

1. Perfect Competition: In perfect competition, there are n-number of players in the market, and no single player influences the market or has economic power.

2. Monopoly: In monopolistic competition, a single operates in the market and has enormous power.

3. Oligopoly: In oligopoly, there are few players in the market, but no single player influences the market. At times, players come together to form 'cartel' under which members take joint decisions regarding price, output and other factors which influence the market, giving them monopolistic powers.

In many countries, including India, the government regulates competition to eliminate monopolistic trade activities.

Any trade practices can be taken under monopolistic trade practice if it is quoting unreasonable high price, high cost and unreasonably high profits or if there is prevention of competition, limited technical development and deterioration of quality of goods.

MRTTP Act is applicable to all undertakings except the undertakings in J&K, trade associations, undertakings

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controlled by government and industrial units under the currency and coinage division of ministry of finance.

4. Political and Legal Factors: Legal and political aspects of business environment are closely related. Legal enactments depend on political aspects. Important political-legal factors affecting a business are:

1. Country's image (politically stable/unstable)
2. Bureaucratic attitude and role
3. Legal enactments and rules
4. Foreign policy and relations
5. Constitutional amendments
6. Legal framework and machinery
7. Political climate (stable/unstable)
8. Ideology of ruling government

In India, government policies and rule have a marked influence on various aspects of business like location, pricing, expansion, distribution, licensing, labour relations; etc. Hence, management must critically consider and observe the legal enactments.

5. Physical and Technological Factors: Physical or geographical factors affect the product mix, which must be changed as per the changes in the physical environment. For example, demand for certain electronic goods like geysers, room heaters may be high-in-high altitude areas, where the temperature is less. Location or proximity not only affects business prospects, but also its operations and also the product price and its availability at different places.

6. Technological Factors: Technical advancements enable rapid growth and development. However, technology and design varies from country to country. For example, in India there are frequent power cuts and power fluctuations which has created market for power backup devices (invertors) and stabilizers respectively. Similarly, in India electronic devices designed to operate at 220 volts, whereas in US and other advanced countries these are designed to operate at 110 volts.

Though technology advancements bring economic growth and development, it is often at social cost. It is the responsibility of the business to consider social cost/benefits before adopting a new technology.

Interaction between Economic and Non-economic Environment

In real life economic and non-economic factors cannot be segregated and exclusively identified. In fact, these factors interact closely and are mutually dependent. Economic environment is both exogenous and endogenous. It is also important to note that treatment of economic factors in isolation is neither feasible nor significant.

The economic and non-economic factors influence each other. For example, economic conditions are influenced by social norms and beliefs of the system, and in turn the income level of the people influences the social norms and values. Business environment is highly dynamic and survival of a firm depends on the fact how effectively it is able to foresee the nature, extent and dimension of such changes and adapt itself to such changes.

BUSINESS ENVIRONMENT AT VARIOUS LEVELS

Business environment is a set of factors and forces which are outside the control of the firm and tend to influence the way a firm conducts its business. It has various components – social, political, cultural, legal and economic.

Changes in socio-cultural, political, legal and economic conditions at regional, national and international level bring changes in economic systems, policies and conditions over a period of time. It is important that business changes with these changes, and also work to anticipate future changes. Thus, the space in which a business operates can be classified into – regional, national and international level.

Regional Level: A firm operating in a given region must analyse the local business environment to adapt and anticipate changes. Similarly, if a firm plans to expand its business in another region(s), it must thoroughly analyse the environment around it. The components which must be analysed include economic and non-economic factors, but the analysis must be done at a regional level.

For example, clothing is close related to climate and culture. Thus, if a firm is set to launch certain brand of clothes in India, it must segregate the anticipated market into various regions and study regional preferences for each. For example, in North and Central India climate is mostly hot through out the year and winter season is short. Similarly, climate in Peninsular India, along the coastal belts is hot and humid. Cultural preferences are also important aspect to be considered.

National Level: A nation comprises of different regions. In environment analysis at national level, a common view is derived on basis of analysis of various individual regions.

The broad components analysed at national are same as those analysed at regional level, but with on wider horizon.

International Level: In age of globalisation, business and economy of any given country is influenced largely by the global economic environment. Advancements in technology and faster communication have changed the way companies do business and react to external changes. International environmental analysis like regional and national level analysis, encompasses economic and non-economic components, but has a broader perception than the former.

A firm must prepare itself for any changes in the external environment at any level – local, national or international.

BUSINESS AND ENVIRONMENT INTERFACE

Business and its various elements are influenced by various environmental/external factors. Environment acts both-as a stimulant and a constraint for business. Environment is dynamic (ever-changing) and when the external environment is conducive, businesses must react accordingly on the available opportunities to grow the business. For example, Tax-holidays, Tax-rebates,