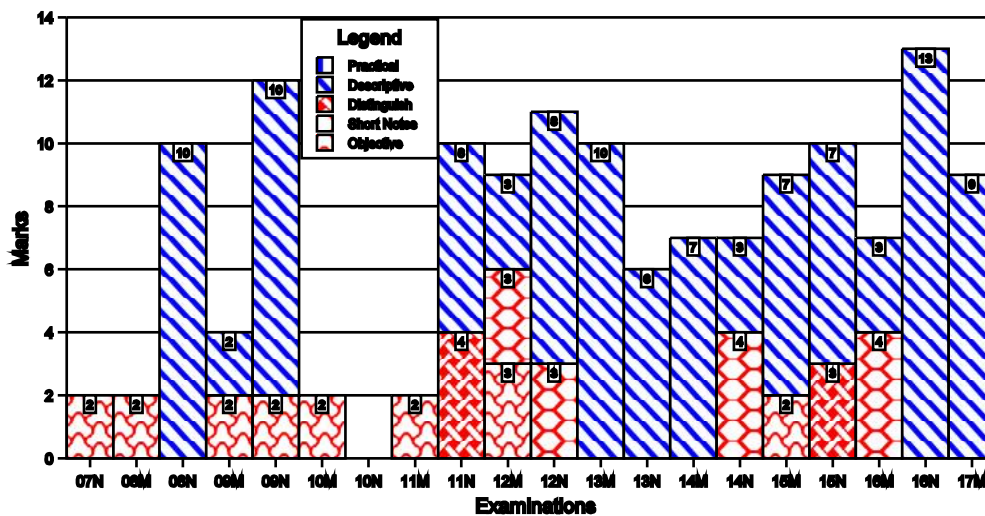


|   |                             |
|---|-----------------------------|
| CHAPTER   |                             |
| <b>1</b>  | <b>Business Environment</b> |
| <b>THIS CHAPTER COMPRISES OF</b>  |                             |
| Introduction    Business    Objective of a Business    Environmental Influences    Environmental Analysis    Characteristics & Components of Business Environment    Organisation & its Environment    Micro & Macro Environment & their elements    Pestle Analysis    Strategic Responses    Competitive Environment    Porter's Five Forces Model. |                             |

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



**OBJECTIVE QUESTIONS**

2007 - Nov [6] State with reason which of the following statement is correct/incorrect:

- (a) Environmental constituents exist in isolation and do not interact with each other. (2 marks)

**Answer :**

**Incorrect :** Business environment consists of number of factors events, influences etc. which arise from different sources and interact with each other continuously to create new sets of complex influences.

**2008 - May [6]** State with reason which of the following statement is correct/incorrect:

- (a) "Profit may not be a universal objective but business efficiency is definitely an objective common to all business." (2 marks)

**Answer :**

**Correct:** The primary objective of business is to earn adequate profit but not maximum profit. Profit serves as a yardstick to measure the success of the business. To facilitate and sustain profit earning, certain other objectives are also pursued by business and efficiency is one of them.

**2009 - May [6]** State with reason which of the following statement is correct or incorrect :

- (e) The rate and magnitude of changes that can affect organisations are decreasing dramatically. (2 marks)

**Answer :**

**Incorrect:** The rate and magnitude of changes that can affect organisations are increasing day by day because of change in business environment due to globalisation and liberalization that are fast-paced and have far-reaching implications for business, as most of the organisation are dependant on the environmental factors.

**2009 - Nov [6]** State with reason which of the following statement is correct or incorrect :

- (a) A business, even if it continually remains passive to the relevant changes in the environment, would still grow and flourish. (2 marks)

**Answer :**

**Incorrect :** All living things live within an environment. Similarly business also dwells within an environment. The success of business is known to have been determined by the constant changes taking place in the social, economic, political and other conditions of the environment. A business just cannot remain passive to these changes. It is from the analysis of these

changes that management can make decisions on whether to react, to ignore, or to try to influence, anticipate future opportunities or threats.

**2010 - May [6]** State with reason which of the following statement is correct or incorrect :

(a) Globalisation means different things to different people. (2 marks)

**Answer :**

**Correct :** Globalization means the process of integration of the world into one huge market. Globalization helps for removal of all trade barriers among countries. Globalization is an opportunity for organizations to expand their markets and reach out to different customers. Globalization can also have other meanings. For some Globalization is a new paradigm- a set of fresh beliefs, working methods, and economic, political and socio-cultural realities in which the previous assumptions are no longer valid. For developing countries, Globalization means integration with the world economy.

**2011 - May [9]** (a) State with reason which of the following statement is correct or incorrect.

(i) The term PESTLE analysis is used to describe a framework for analyzing the micro-environmental factors. (2 marks)

**Answer :**

**Incorrect -** The term PESTLE is used to describe a framework for analysis of macro environmental factors. PESTLE analysis involves identifying the Political, Economical, Social, Cultural, Technological, Legal and Environmental influences of an organization and providing a way of scanning the environmental influences that have affected or are likely to affect an organisation or its policy.

**2012 - May [12]** (b) Describe two environmental changes that you expect to have a major impact on the industry:

(i) Retail Industry

(ii) Automobile Industry

(iii) Education Industry

(3 × 1 = 3 marks)

**Answer:**

7.306

■ *Solved Scanner IPCC Gr. II Paper - 7B*

- (i) **Retail Industry:**
  - (a) Change in production process and product innovation
  - (b) FDI and policies thereon.
- (ii) **Automobile Industry:**
  - (a) Discovery / Invention of alternative fuels
  - (b) Anti Pollution pressures.
- (iii) **Education Industry:**
  - (a) Modernised education delivery system using computer, internet etc.
  - (b) Career oriented education.

**2015 - May [9]** (a) State with reason which of the following statement is correct or incorrect.

- (i) The PESTLE framework is used for analyzing both macro and micro environment. (2 marks)

**Answer:**

**Incorrect**

**Reason:** PESTLE stands for Political, Economic, Socio cultural, Technological, Legal and Environmental. The term PESTLE is used to describe a framework for analysis of macro environmental factors. PESTLE analysis involves identifying the political, economic, socio-cultural, technological, legal and environmental influences on an organization. The advantage of this tool is that it encourages management into proactive and structured thinking in its decision making.

### ► **SHORT NOTES**

**2012 - May [14]** Write short note on the following:

- (b) Role of Global Industries (3 marks)

**Answer:**

|                                  |  |
|----------------------------------|--|
| <b>Global Environment</b>        | <p>The international (or global) environment consists of all those factors that operate at the transnational, cross-cultural, and across-the-border level which have an impact on the business of an organisation.</p> <p>In economic terms, globalisation refers to the way of integrating the world into one huge market.</p> <p>In terms of a company, globalisation means commitment to the international market to offer quality product in several diversified industries. It also means ability to compete with international competitors in domestic market.</p> |
| <b>Role of global Industries</b> | <p>Global industries are those which operate at the transnational, cross-culture, and across the border level. They integrate the world into one huge market. They are committed to the international market to offer quality product in several diversified industries. The influence of global industries studied in terms of operating in the international environment is as below:</p>  |
| <b>Macro Environment</b>         | <p>Macro environment refers to all the factors which either provide opportunity or pose threats to the organisation. It offers a wide range of opportunities constraints, threats, pressures and thus influences the business.</p> <p>It is external to the organisation beyond the direct influence and control of the organisation but exerts powerful influence over its functioning.</p>   |

|              |   |  |
|--------------|---|--|
| <b>7.308</b> | ■ | <b>Solved Scanner IPCC Gr. II Paper - 7B</b> |
|--------------|---|--|

|   |   |
|---|---|
| <p><b>The influence of global environment studied in terms of operating in the international environment are as below</b></p> | <ul style="list-style-type: none"> <li>(i) Process of globalisation.</li> <li>(ii) Global economic forces.</li> <li>(iii) Global trade and commerce.</li> <li>(iv) Global financial system, sources of financing, and accounting standards.</li> <li>(v) Geopolitical situation, strategic interests of nations.</li> <li>(vi) Global demographic patterns.</li> <li>(vii) Global human resource.</li> <li>(viii) Global information systems, communication networks.</li> <li>(ix) Global technological and quality systems and standards.</li> <li>(x) Global markets and competitiveness.</li> <li>(xi) Global legal system, adjudication and arbitration mechanisms.</li> <li>(xii) Globalisation of management.</li> </ul> |
|---|---|

**2012 - Nov [14] (Or)** Write short note on the following:  
 (b) Characteristics of a Global Company. (3 marks)

**Answer:**  
*Please refer 2008 - Nov [8] on page no. 321*

**2014 - Nov [14]** Write short note on the following:  
 (a) Strategic responses to business environment. (4 marks)

**Answer:**  
 The business organization and its many environments have in numerous interrelationship that at times it becomes difficult to determine exactly where the organization ends and where it begins.

|                                |   |
|--------------------------------|---|
| <p><b>Least Resistance</b></p> | <p>Some Business just manage to survive by way of coping with their changing external environments. They are simple goal-maintaining units.</p> |
|--------------------------------|---|

|                             |  |
|-----------------------------|--|
| <b>Proceed with caution</b> | At the next level, are the businesses that take an intelligent interest to adapt with the changing external environment. They seek to monitor the changes in that environment, analyse their impact on their own goals and activities and translate their assessment in terms of specific strategies for survival, stability and strength. |
| <b>Dynamic response</b>     | At a still higher sophisticated level are those businesses that regard the external environment forces as partially manageable and controllable by their actions.  |

**2016 - May [14]** Write short note on the following:

(a) 'Kieretsus', a cooperative network of business in Japan. (4 marks)

**Answer:**

Keiretsu is a business network composed of manufacturers, supply chain partners, distributors and financiers who remain financially independent but work closely together to ensure each other's success.

**This concept developed in Japan.** In Japanese, the word *keiretsu* means Headless Combine or group. The *keiretsu* maintained dominance over the Japanese economy for the second half of the 20<sup>th</sup> century. It is a key element of manufacturing industry in Japan. The prototypical *keiretsu* appeared in Japan during the "economic miracle" following World War II and the collapse of family-controlled vertical monopolies called *zaibatsu*.

**In business**, the word is often used as a synonym for partnership, alliance or extended enterprise. The member companies own small portions of the shares in each other's companies, centered on a core bank; this system helps insulate each company from stock market fluctuations and takeover attempts, thus enabling long-term planning in innovative projects.

**The formation of a *keiretsu*** allows a manufacturer to establish stable, long-term partnerships, which in turn helps them to stay lean and focus on core business requirements. That same stability, however, can sometimes be a liability and prevent the manufacturer from responding quickly to changes in the economy, culture or technology. *Keiretsu* are organized around their own trading companies and banks. This allows each major *keiretsu* to be capable

**7.310** ■ **Solved Scanner IPCC Gr. II Paper - 7B**

of controlling nearly every step of the economic chain in a variety of industrial, resource and service sectors.

**▶ DISTINGUISH BETWEEN**

**2011 - Nov [13]** Distinguish between the following:  
 (a) Micro Environment and Macro Environment. (4 marks)

**Answer :**  
 The business environment consists of both the macro environment and the micro environment. Following are the differences between the two:

| S. No. | Basic of Difference | Micro Environment   | Macro Environment   |
|--------|---------------------|---|---|
| 1      | Meaning             | The micro environment refers to the forces that are very close to the company and affect its ability to do routine functions. | Macro environment refers to all forces that are part of the larger periphery and distantly affect organization and micro environment. |
| 2.     | Elements            | Micro environment includes the company itself, its suppliers, marketing intermediaries, customer markets and competitors.     | Macro environment includes demography, economy, natural forces, technology, politics, legal and socio-cultural.                       |
| 3.     | Nature              | The elements of micro environment are specific to the said business and affect it's working on short term basis.              | The elements of macro environment are general environment and affect the working of all the firms in an industry.                     |

**2015 - Nov [13]** Distinguish between the following:  
 (b) Micro and Macro Environment. (3 marks)

**Answer:**  
 Please refer 2011 - Nov [13] (a) on page no. 320



**DESCRIPTIVE QUESTIONS**

**2008 - Nov [8]** What is meant by a Global Company? Explain briefly different strategic approaches for Globalisation by a Company. (4+6 = 10 marks)

**Answer :**

|  |   |
|--|---|
| <b>Meaning of Global Company</b>         | <p><b>A company is said to be a global company when:</b></p> <ul style="list-style-type: none"> <li>(i) The company has several manufacturing locations around the world and offers products in several diversified industries, and</li> <li>(ii) It is able to compete in domestic markets with foreign competitors.</li> </ul> <p>A company which has gone global is called a Multinational (MNC) or a Transnational (TNC).</p>   |
| <b>Characteristics of Global Company</b> | <p><b>A global company has three characteristics:</b></p> <ul style="list-style-type: none"> <li>(i) It is a conglomerate of multiple units but all linked by common ownership.</li> <li>(ii) Multiple units draw on a common pool of resources, such as money, credit, information, patents, trade names and control systems.</li> <li>(iii) The units respond to some common strategy. Nestle International is an example of an enterprise that has become multinational.</li> </ul> <p>A global company is, therefore, one that, by operating in more than one country gains R&amp;D, production, marketing and financial advantages in its cost and reputation that are not available to purely domestic competitors. The global company views the world as one market, minimises the importance of national boundaries, sources, raises capital and markets wherever it can do the job best.</p> |

| <b>Different strategic approaches for globalisation by company:</b> |   |  |
|---|---|--|
| 1.  | <b>Configuring anywhere in the world</b>                            | An MNC can locate its different operations in different countries on the basis of raw material availability, consumer markets and low cost labour.   |
| 2.  | <b>Interlinked and independent economies</b>                        | In terms of economies - welfare, globalization refers to the unique economically interdependent international environment. Each country's prosperity is interlinked with the rest of the world. No nation can any longer hope to lead an existence of solitude and isolation in which only domestic industries can function.   |
| 3.  | <b>Lowering of trade and tariff barriers</b>                        | The apparent and real collapse of international trade barriers proposes a new global co-operative arrangement and a redefinition of roles of state and industry. The trend is towards increased privatisation of manufacturing and services sectors, less government interference in business decisions and more dependence on the value-added sector to gain market place competitiveness world over, governments are pulling out from commercial business. The trade tariffs and custom barriers are getting lowered, resulting in cheaper and abundant supply of goods. |
| 4.  | <b>Infrastructural resources and inputs at international prices</b> | Infrastructural inputs must be ensured at competitive prices, if the companies were to compete globally. The advantages of cheap labour (and other inputs) evaporate in the face of continuous inflation and high infrastructural costs.   |
| 5.  | <b>Market side efficiency</b>                                       | Integration of global markets implies that costs, quality processing time, and terms of business because dominant competition drivers customers can make a genuine choice products and services on the basis of maximum value for money. The inexorable pressure of technology and need for its integration means that customers no longer have to be satisfied with shoddy  |

|    |                                     |   |
|----|-------------------------------------|---|
|    |                                     | products, and services provided by the monopolies.  |
| 6. | <b>Formation of regional blocks</b> | Countries, like corporations, have to form strategic alliances to ward off economic and technological threats and leverage their respective comparative and competitive advantages. The signing of NAFTA (North American Free Trade Area) among N America, Canada and Mexico creates new markets and manufacturing opportunities for these countries and threatens to disrupt the plans and strategies of world powers such as Japan. |

**2009 - May [7]** Answer briefly the following :

- (a) Can a change in the elected government affect the business environment? Explain. (2 marks)

**Answer :**

Change in the elected government is one of the macro factors that affect the organisation. Due to the change in the elected government, there is a change in political environment, legal environment and change in number of fields which may affect the environment or the organisation by number of ways:

- The new policies and programs brought by the new government may affect the business environment.
- It may also bring changes in business pattern.
- Revision in prices of various commodities, also affect the business.
- Imposition of taxes in new areas also affect the environment.

**2009 - Nov [8]** What are the five competitive forces in an industry as identified by Michael Porter ? Explain. (10 marks)

**Answer :**

A structured approach to examine the competitive environment of an organisation has been suggested by **Michael Porter**.

|                              |   |
|------------------------------|---|
| <b>Logic of the Approach</b> | The logic behind this approach is that for most organisations, the strategic competitive advantages enhance and ensure long-term profit potentials, and also because competitive forces happen to be more immediate external influences which organisations are |
|------------------------------|---|

|    |                                      |   |
|----|--------------------------------------|---|
|    |                                      | likely to be able to overcome directly by their own actions.  |
|    | <b>Porters Framework</b>             | Porter identified five basic forces which, according to him, determine the intensity and state of competition in an industry, and the collective impact of which determines the long-run profit potential in the industry.<br><b>The basic forces are:</b><br>1. Degree of competitive rivalry among competitors;<br>2. Threat of entry posed by potential entrants;<br>3. Threat of actual or potential substitutes;<br>4. Bargaining power of suppliers; and<br>5. Bargaining power of customers.   |
| 1. | <b>Degree of Competitive rivalry</b> | Rivalry or competition leads to actions taken by different players to get an edge over other players.<br>The specific factors determining competitive rivalry are :<br>(i) The number and size of competitors.<br>(ii) The industry growth rate.<br>(iii) Capital intensity involving high fixed costs.<br>(iv) Product differentiation, and<br>(v) Exit barriers.  |
| 2  | <b>Threat of Potential Entrants</b>  | New entrants with their extra capacity and new product range bring new competitive pressures.<br>This threat depends on the barriers to entry, which may typically include:<br>(i) Economies of scale.<br>(ii) Capital requirement for entry.<br>(iii) Access to distribution channel.<br>(iv) Cost advantages irrespective of size.<br>(v) Differentiation of product (brand identity).<br>(vi) Expected retaliation by existing players.<br>(vii) Cost of switching over to other product markets.<br>(viii) Government policy and legislation. |
| 3  | <b>Substitutes</b>                   | Substitute products are a latent source of competition in an industry. Substitute products offering a price   |

|   |                       |  |
|---|-----------------------|--|
|   |                       | <p>advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry.</p> <p>The threat of actual or potential substitutes needs to be examined carefully, as it may put a ceiling on the prices for a product, or make inroads into the market and reduce its demand, e.g : PVC tubes making inroads into the market for steel tubes, or copper losing its market to aluminium and plastics.</p>  |
| 4 | <b>Supplier Power</b> | <p>The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry.</p> <p>The strategic freedom of an organisation may be constrained by suppliers under circumstances, which may lead to reduced margins for the organisation. This happens where :</p> <ul style="list-style-type: none"> <li>(i) there is a concentration of suppliers, or monopoly of supply enjoyed by a supplier.</li> <li>(ii) the switching costs from one supplier to another is high due to a manufacturer's dependence on a specialised or differentiate item of supply.</li> <li>(iii) the scope of supplier resorting to forward integration.</li> <li>(iv) the customers are of little importance to the supplier.</li> </ul> |
| 5 | <b>Customer Power</b> | <p>The bargaining power of the buyers influences not only the prices that the producer can charge but also influences costs and investments.</p> <p>The bargaining power of customers is a function of factors as:</p> <ul style="list-style-type: none"> <li>(i) Concentration of buyers.</li> <li>(ii) Alternate sources of supply.</li> <li>(iii) Costs of switching over to other customer segments.</li> <li>(iv) Threat of backward integration of buyer organisation, and</li> <li>(v) Substitutes available.</li> </ul>  |

**KZ - 1** Knowledge Zone

**Identifying key issues**

Porter's 'five-forces' framework not only helps analysing the structural dimensions of the competitive environment, but also requires that key issues be identified to address the organisational strategic competitive position. Structural analysis must be followed by identifying the key issues on the basis of the insight gained into the competitive forces. The following questions may be posed for the purpose:

- (i) What are the key forces at work?
- (ii) What are the strengths and weaknesses of particular competitors in relation to the key forces?
- (iii) Are the key forces in the competitive environment likely to change, and, if so, how?
- (iv) What could be done to influence the competitive forces affecting the organisation?
- (v) Is there some other industry which is more attractive?

**2011 - Nov [8] {C}** (a) Elaborate the characteristics of Business Environment with reference to Decision Making. (3 marks)

**Answer :**

Business environment presents many characteristics. Some of the important characteristics are as follows:

|   |                                    |   |
|---|------------------------------------|---|
| 1 | <b>Environment is complex</b>      | An environment consists of many interrelated factors and understanding these factors is a difficult task. So we can say business environment is complex. It is some what easier to understand environment in parts but difficult to understand in totality. |
| 2 | <b>Environment is dynamic</b>      | Business environment changes continuously due to changing needs of customers and competitions.  |
| 3 | <b>Environment is multifaceted</b> | Environment developments are taken differently by different people the same development is welcomed as an opportunity by one company while another company perceives it as a threat.  |

|   |  |   |
|---|--|---|
| 4 | <b>Environment has a far reaching impact</b> | The environment has a far reaching impact on organizations, particularly, the growth and profitability of an organization depends critically on the environment in which it exists. |
|---|--|---|

**2011 - Nov [8] {C}** (b) Industry is a composite of competitive pressures in five areas of the overall market. Briefly explain the competitive pressures. (3 marks)

**Answer:**

*Please refer 2009 - Nov [8] on page no. 323*

**2012 - May [8] {C}** (a) “Environment is the sum of several External and Internal forces that affect the functioning of business.” Explain. (3 marks)

**Answer:**

The environmental forces can be divided as the External environment and Internal environment.

**The external and internal environment influence business as follows:**

| Environment                 | Influences In Terms of   |   |
|-----------------------------|--|---|
|                             | OPPORTUNITY  | THREAT  |
| <b>EXTERNAL ENVIRONMENT</b> | A favourable condition which enables business to improve, strengthen and consolidate itself.<br><br>E.g.: Growing Demand for existing product, favorable changes in Government policy. | An unfavorable condition which rocks the business by increasing the risk element and may also cause loss to business.<br><br>E.g.: change in taste of consumer, fashion or trend, emergence of strong competitor etc. |

**7.318** ■ **Solved Scanner IPCC Gr. II Paper - 7B**

|                             | <b>STRENGTH</b>   | <b>WEAKNESS</b>   |
|-----------------------------|---|---|
| <b>INTERNAL ENVIRONMENT</b> | A positive aspect or strong capacity of a business which helps it overcome difficulties and gain strategic advantage over others.<br>E.g.: excellent work force, strong R & D | A negative aspect or limitation of a business which keeps it way behind its competitors.<br>E.g.: use of old technology or technique of production. |

Thus a successful business has to identify, appraise and respond to the various opportunities and threats keeping in mind its inherent strengths and weaknesses.

**2012 - Nov [8] {C}** (a) Explain the factors that affect the strength of competitive pressures from substitute products. (3 marks)

**Answer:**

Substitute products are those products which are used in place of main product. They are a latent source of competition in an industry. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry.

According to Michael Porter, the state of competition in an industry is a composite of competitive pressures operating in five areas of overall market. One of the five areas is the threat of substitute products or services. The threat of actual or potential substitutes needs to be examined carefully, as it may put a ceiling on the prices for a product, or make inroads into the market and reduce its demand, e.g : PVC tubes making inroads into the market for steel tubes, or copper losing its market to aluminium and plastics.

**2012 - Nov [10]** Explain the meaning of the following concepts:

- (i) Demographic Environment (1 mark)

**Answer:**

**Demographic Environment:**

Demographic environment denotes the characteristics of the population living in a particular area,

**The characteristics include :**

- Age
- Employment status



Income Living standard  
 Education Wage structure  
 Sex Ratio Growth rate

These demographic factors have great influence and impact on the business.

The challenge is to identify these factors and analyse their present and future impact.

| KZ - 2  | Knowledge Zone |
|---|----------------|
| <b>The influence of demography is studied in terms of</b>   |                |
| <ol style="list-style-type: none"> <li>1. Changes in age group of consumer.</li> <li>2. Increase or decrease in total population.</li> <li>3. Changes in life expectancy.</li> <li>4. Population shift.</li> <li>5. Culture of a place.</li> <li>6. Income distribution.</li> <li>7. Attitude of people.</li> </ol> |                |

**2012 - Nov [11]** (a) How would you analyse the meaning and importance of Efficiency and Profitability as objectives of business? (2 + 2 = 4 marks)

**Answer:**

|   |                      |   |
|---|----------------------|---|
| 1 | <b>Efficiency</b>    | Business acquires efficiency by the appropriate use of raw material, labour, capital and other resources in best possible manner and combination. Efficiency is thus a useful operational objective of achieving suitable input, output, ratios of funds, facilities and resources. |
| 2 | <b>Profitability</b> | Very often business survive on the aspect of profit. Profit is one of the main objectives of business. The other objectives are facilitative which are meant to be subservient to the profit motive.  |

**7.320** ■ **Solved Scanner IPCC Gr. II Paper - 7B**

**2013 - May [8] {C}** (a) “A business enterprise is a sub-system of the larger environmental system”. Discuss the relationship between the organization and its business environment. (3 marks)

**Answer:**

*Please refer 2012 - May [8] {C} (a) on page no. 327*

**2013 - May [10]** What do you mean by micro environment of business? Explain its elements. (7 marks)

**Answer:**

Micro environment refers to the forces that are very close to the company and effect its ability to do routine functions. It refers to all the factors within an organization which provide strength or cause weakness. It is related to small area or immediate periphery of an organization.

**Elements of micro environment are :**

|           |                              |   |
|-----------|------------------------------|---|
| <b>1.</b> | <b>Organization</b>          | An organization has several non-specific elements in form of individuals and groups that may affect its activities.   |
| <b>2.</b> | <b>Suppliers</b>             | Suppliers with their own bargaining power affect the cost structure of the industry. They constitute a major force, which shapes competition in the industry. |
| <b>3.</b> | <b>Market Intermediaries</b> | They bridge the gap between the organizations and customers. They buy product from the local retailers or big departmental stores.                            |
| <b>4.</b> | <b>Customers</b>             | Business depends upon the trend, taste, preference of consumers, hence the influence of consumers cannot be undermined.                                       |
| <b>5.</b> | <b>Market</b>                | The influence of market is studied in terms of market capacity, size, growth prospect, trend and development.   |
| <b>6.</b> | <b>Competitors</b>           | A study of the competitive scenario is essential for the marketer, particularly threats from competition.   |

**2013 - Nov [8] {C}** (a) “Business environment exhibits many characteristics.” Explain. (3 marks)

**Answer:**

*Please refer 2011 - Nov [8] {C} (a) on page no. 326*

**2013 - Nov [9]** (b) A global company has three characteristics. Explain. (3 marks)

**Answer:**

*Please refer 2008 - Nov [8] on page no. 321*

**2014 - May [8] {C}** (c) Assume that you are an entrepreneur who has an intense desire to get into the business. What types of information relating to macro environment would you need to determine external opportunities and threats? (3 marks)

**Answer:**

|    |                                 |  |
|----|---------------------------------|--|
| 1. | <b>Demographic Factors</b>      | Different market segments are typically impacted by common demographic forces, including country/region; age; ethnicity; education level; household lifestyle; cultural characteristics and movements.   |
| 2. | <b>Economic Factors</b>         | The economic environment can impact both the organisation's production and the consumer's decision making process. The economic macro environment assesses the availability of purchasing power in an economy, which depends on the current prices, credit availability, comparative foreign exchange rates and business cycles. Economic macro environment factors also affect an organization's ability to maintain a stable profit. |
| 3. | <b>Natural/Physical Factors</b> | The Earth's renewal of its natural resources such as forests, agricultural products, marine products, etc. must be taken into account. There are also the natural non-renewable resources such as oil, coal, minerals, etc. that may also impact the organisation's production.  |

|    |                                    |  |
|----|------------------------------------|--|
| 4. | <b>Technological Factors</b>       | The skills and knowledge applied to the production and the technology and materials needed for production of products and services can also impact the smooth running of the business and must be considered. Technological macro environment factors affect the quality of goods and services offered by a company. New technologies that provide superior value to satisfying consumer needs stimulate economic and investment activities. Developments in the technological environment also enable an organisation to stay modernized and ahead of the market curve. |
| 5. | <b>Political and Legal Factors</b> | The legal and political macro environment comprises of government agencies and pressure groups that influence organizational operations, tax policies and the national and international laws that may affect the demand and supply chains. Sound marketing decisions should always take into account political and/or legal developments relating to the organisation and its markets.  |
| 6. | <b>Social and Cultural Factors</b> | Social macro environment is comprised of beliefs, values, moods, norms, gender and demographics of the population. Trends in the social environment influence the products a company manufacturers and its target customers.   |

**2014 - May [12]** (a) How would you argue that modern enterprises pursue multiple objectives and not a single objective? (4 marks)

**Answer:**  
 The various objectives of business relate to profitability, productive efficiency, growth, technological dynamism, stability, self-reliance, survival, competitive

strength, customer service, financial solvency, product quality, diversification, employee satisfaction and welfare, and so on. However a critical purpose of business is to create customers. It is the customers who determine what a business is. Today, organisations are capable of achieving multiple objectives and they focus on different objectives rather than a single objective.

**2014 - Nov [8] {C}** (a) You have been hired as a consultant by a company to advise it on factors it need to consider for environmental scanning. Explain briefly these factors. (3 marks)

**Answer:**

**Factors relating Micro environment:**

*Please refer 2013 - May [10] on page no. 330*

**Factors relating Macro environment:**

*Please refer 2014 - May [8] {C} (c) on page no. 331*

**2015 - May [8] {C}** (a) Analyse the following cases in the context of Michael Porter's Five Forces Model:

- (i) A supplier has a large base of customers.
- (ii) A manufacturer of sports goods has the advantage of economies of large scale production.
- (iii) Products offered by competitors are almost similar. (3 marks)

**Answer:**

(i) **A supplier has a large base of customers:**

- Quite often suppliers, too, exercise considerable bargaining power over companies. The more specialised the offering from the supplier, greater is his power.
- If the suppliers are limited in number they stand a still better chance to exhibit their bargaining power.
- The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, industry attractiveness and profitability.

(ii) **A manufacturer of sports goods has the advantage of economies of large scale production:**

- Bargaining power of customers is another force that influences the competitive condition of the industry.

7.324

■ *Solved Scanner IPCC Gr. II Paper - 7B*

- This force will become heavier depending on the buyers forming groups or cartels.
  - Mostly, this is a phenomenon seen in industrial products.
  - Quite often, users of industrial products come together formally or informally and exert pressure on the producer in matters such as price, quality and delivery.
- (iii) **Products offered by competitors are almost similar:**
- Substitute products are a latent source of competition in an industry.
  - In many cases they become a major constituent of competition.
  - Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry.

**2015 - May [11]** (a) To which industries the following environmental changes will offer opportunities and pose threats (name any two industries in each case).

Give reasons for your answer.

- (i) Significant reduction in domestic air-fares spanning over a long period.
- (ii) Cut in interest rates by banks. (2 × 2 = 4 marks)

**Answer:**

- (i) **If there is changes in significant reduction in domestic air-fares spanning over a long period:**
  - **Airline Industries:** As an opportunity because it creates profit in future and service can be improved.
  - **Service Industries:** It creates opportunity for them in the future as a service communication can be improved by providing better and speedier services.
- (ii) **Cut in interest rates by banks:**
  - **Banking Section :** Cut in interest rate can be favourable to banking industries as it attracts and pleases the customers for more loans and advances. So, they can earn good amount on fund.
  - **Manufacturing Industries:** Main requirement of manufacturing industries is a fund at its lower cost. So, when there is change in

Bank Interest Rate, Manufacturing Industries can avail such fund and grow in an economy.

**2015 - Nov [8] {C}** (a) The environment has many different influences, but it is very difficult for the managers to make sense of these influences. Why? (3 marks)

**Answer:**

- Environment is sum of several external and internal factors that affects the functioning of business. Environment has so many influences, but it is very difficult for managers to make sense of these influences. This is because of following reasons:

|   |  |  |
|---|--|--|
| 1 | <b>Environment is complex</b>                | An environment consists many interrelated factors and understanding these factors are difficult tasks. So we can say business environment is complex. It is some what easier to understand environment in parts but difficult to understand in totality. |
| 2 | <b>Environment is dynamic</b>                | Business environment changes continuously due to changing needs of customers and competitions.   |
| 3 | <b>Environment is multifaceted</b>           | Environment developments are taken differently by different people the same developed is welcomed as an opportunity by one company while another company perceives it as a threat.   |
| 4 | <b>Environment has a far reaching impact</b> | The environment has a far reaching impact on organizations, particularly, the growth and profitability of an organization depends critically on the environment in which it exists.  |

**2015 - Nov [12]** (a) Can a business succeed in the long run by focusing only on profit as its primary objective? What are other objectives of a business? (4 marks)

**Answer:**

The primary objective of business is to earn adequate profit but not maximum profit. Profit serves as a yardstick to measure the success of the business. To facilitate and sustain profit earning, certain other objectives are also pursued by business and efficiency is one of them.

**7.326****■ Solved Scanner IPCC Gr. II Paper - 7B**

Thus, the business organization cannot succeed in long run by focusing only on profit as a primary objective. It has to consider all other **objectives which are as follows:**

|                         |  |
|-------------------------|--|
| <b>1. Survival</b>      | Survival is the will and anxiety to perpetuate in future as long as possible. It is a basic, implicit objective of most organization. The ability to survive is the function of the nature of ownership, nature of business, competencies of management, general and industry conditions, financial strength of organization and so on.  |
| <b>2. Stability</b>     | It is least expensive and risky objective in terms of managerial time and talent and other resources. A stable and steady enterprises minimises managerial tension and demands less dynamism.  |
| <b>3. Growth</b>        | It is very promising and popular objective which with dynamism, vigour, promise and success. Enterprise growth may take into one or more forms like increase in assets, manufacturing facilities, increase in sales volume in existing products or through new products, improvement in profit and market share, increase in manpower employment, acquisition of other firm and so on. |
| <b>4. Efficiency</b>    | Business organization seek efficiency in rationally choosing appropriate means to achieve their goals, doing the thing in best possible manner, utilizing the resources in most suitable combination to get highest productivity.  |
| <b>5. Profitability</b> | Profit is sole motive of all business. All other objective are facilitative objective but business should also concentrate on other objective to prosper in long run.  |

**2016 - May [9]** (b) Elaborate the reasons necessary for the globalization of companies. (3 marks)

**Answer:**

**Reason for globalization of companies:**

- Rapid shrinking of time and distance across the globe.
- Domestic market are no longer adequate and rich.



- Development of attractive new product to attract customers internationally.
- To reduce high transportation cost.
- Cheaper labour available in other country to produce the product.

**2016 - Nov [8] {C}** (a) State three characteristics that are specific to a global company. (3 marks)

**Answer:**

*Please refer 2008 - Nov [8] on page no. 321*

**2016 - Nov [8] {C}** (c) Give any three special features or characteristics of the e-commerce environment. (3 marks)

**Answer:**

**Features of e-commerce environment:**

1. The internet makes it feasible for companies everywhere to compete in global markets.
2. Entry barriers into the e-commerce world are relatively low.
3. The internet makes it feasible for companies to reach beyond their borders to find the best suppliers and further, to collaborate closely with them to achieve efficiency gains and cost savings.

**2016 - Nov [11]** (a) What is micro and macro environment in the context of an organization's business environment? List two elements of each type of environment and discuss each briefly in one line on what it is. (4 marks)

**Answer:**

|                          |   |
|--------------------------|---|
| <b>Micro Environment</b> | Micro environment is related to small area or immediate periphery of an organization. The micro environment refers to the forces that are very close to the company and affect its ability to do routine functions. |
|--------------------------|---|

7.328

■ *Solved Scanner IPCC Gr. II Paper - 7B*

|                                       |                                |   |
|---------------------------------------|--------------------------------|---|
| <b>Macro Environment</b>              |                                | Macro environment has proceeded dimensions. It mainly consists of economic, technological, political, legal and socio-cultural environment. Macro environment refers to all forces that are part of the larger periphery and distantly affect organization and micro environment. |
| <b>Elements of Micro Environment:</b> |                                |   |
| 1.                                    | <b>Consumers</b>               | Consumers are the people who pay money to acquire an organisation's products.   |
| 2.                                    | <b>Organization</b>            | An organisation has several non-specific elements that affect its activities.   |
| <b>Elements of Macro Environment:</b> |                                |   |
| 1.                                    | <b>Demographic Environment</b> | The term demographic denote characteristics of population in or area, district, country or in work.   |
| 2.                                    | <b>Economic Environment</b>    | The Economic Environment refers to the nature and direction of the economy in which a company competes or may compete.  |

**2016 - Nov [12]** (b) Identify and six social environmental factors that affect the demand for a company's product. (3 marks)

**Answer:**

**Social Environmental Factors affective:**

1. Lifestyle trends.
2. Demographics.
3. Consumer attributes and opinions.

4. Consumer buying patterns.
5. Ethnic/ religious factors.
6. Media views and perception.

**2017 - May [8] {C}** (a) A Manager faces different problems while trying to understand the environment. Discuss. (3 marks)

**(e)** Discuss the characteristics of business environment. (3 marks)

**2017 - May [12]** (b) What are the strategic responses of an organisation to its environment? Explain. (3 marks)

| Similarly Asked Questions* |                             |   |                |           |
|----------------------------|-----------------------------|---|----------------|-----------|
| No.                        | Category                    | Question  | Marks          | Frequency |
| 1.                         | Short Notes/<br>Descriptive | A global company has three characteristics. Explain.<br>08 - Nov [8], 12 - Nov [14] (Or)<br>(b), 13 - Nov [9] (b),<br>16 - Nov [8] (a)                                | 10, 3,<br>3, 3 | 4 Times   |
| 2.                         | Descriptive                 | "Business environment exhibits many characteristics." Explain<br>11 - Nov [8] {C} (a),<br>13 - Nov [8] {C} (a),<br>17 - May [1] {C} (e)                               | 3, 3, 3        | 3 Times   |
| 3.                         | Descriptive                 | Industry is a composite of competitive pressures in five areas of the overall market. Briefly explain the competitive pressures.<br>09 - Nov [8], 11 - Nov [8] {C}(b) | 10, 3          | 2 Times   |
| 4.                         | Distinguish<br>Between      | Micro and Macro Environment.<br>11 - Nov [13] (a),<br>15 - Nov [13] (b)   | 4, 3           | 2 Times   |

\* This table contains the Similarly Asked Questions. Please pay more attention to such questions.

**7.330** ■ *Solved Scanner IPCC Gr. II Paper - 7B*

| <b>Table Showing Marks of Compulsory Questions</b> |         |         |         |         |         |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Year   | 12<br>N | 13<br>M | 13<br>N | 14<br>M | 14<br>N | 15<br>M | 15<br>N | 16<br>M | 16<br>N | 17<br>M |
| Descriptive  | 3       | 3       | 3       | 3       | 3       | 3       | 3       |         | 6       | 6       |
| Total  | 3       | 3       | 3       | 3       | 3       | 3       | 3       |         | 6       | 6       |