

As per New CBCS Syllabus for 2nd Semester, B.Com,
Tumkur University w.e.f. 2016-17

Business Environment

K. Aswathappa
G. Sudarsana Reddy



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Preface

A person who would like to start and organise business, have different forms of business organisation. Adopting a specific form depends on the various factors. Selecting a suitable form leads to success in the business.

Success in a business depends not only on the form of business organisation but also on the environmental forces. Popularly called environment factors – these forces include global, technological, political-legal, economic, cultural social and natural. We have discussed, at length, the interface between business and its environmental factors. Needless to say our focus is on Indian business.

A student with B.Com degree in hand needs to have knowledge about business, the scope and objectives of business and forces of business environment.

We have brought out “**Business Environment**” to meet the specific needs of Tumkur University.

The book is rich with examples drawn from Indian business environment. Questions and skill building exercises make the book more user-friendly. We hope that the book would receive warm response from teachers and students.

K. Aswathappa
G. Sudarsana Reddy

Syllabus

OBJECTIVE

To enable the students to acquaint with the dynamics of business scenario in India.

Unit 1: Business Environment

10 Hrs

Meaning of business, scope and objectives business, Business environment, Micro and Macro environment of business (social, cultural, economic, political, legal, technological and natural), Impact of these factors on decision making in organisation.

Unit 2: Natural Environment

08 Hrs

Meaning, component of natural environment, impact of natural environment on business decision.

Unit 3: Economic Environment

10 Hrs

Characteristics of Indian economy, factors affecting economy, economic resources, impact of liberalisation, privatisation and globalisation on Indian business.

Unit 4: Legal Environment

10 Hrs

Meaning, impact of fiscal monetary policy, Exim policy and industrial policy on business, industrial policy of 1991.

Unit 5: Technological Environment

10 Hrs

Meaning, features, impact of technology on business, management of technology.

Unit 6: Global Environment

10 Hrs

Nature of globalisation, challenges of international business, strategies for going global, WTO, Trading blocks in brief.

Skill Development

1. Identify natural and economic features of your region and analyze how they affect the business.
2. Identify various regulatory authorities affecting the business.
3. State the highlights of recent union budget affecting the budget.

Contents

Chapter – 1	Introduction to Business Organisation	1 – 10
Chapter – 2	Business Environment	11 – 20
Chapter – 3	Political Institutions	21 – 31
Chapter – 4	The Constitution of India	32 – 41
Chapter – 5	Rationale and Extent of State Intervention	42 – 52
Chapter – 6	End of Government Business?	53 – 58
Chapter – 7	Technological Environment	59 – 82
Chapter – 8	Economic Environment	83 – 94
Chapter – 9	Monetary and Fiscal Policies	95 – 114
Chapter – 10	Industrial Policy	115 – 125
Chapter – 11	New Economic Policy	126 – 136
Chapter – 12	Industrial Licensing	137 – 142
Chapter – 13	Globalisation	143 – 162
Chapter – 14	Strategies for Going Global	163 – 182
Chapter – 15	WTO and the Trading Blocks	183 – 209
Chapter – 16	Privatisation	210 – 220
Chapter – 17	Natural Environment	221 – 226
Chapter – 18	Exit Policy	227 – 230

Introduction to Business Organisation

LEARNING OBJECTIVES

After reading this Chapter, you should be able to:

- *Understand the nature and scope of business.*
- *Define vision, mission and goals of business.*
- *Describe criticisms of business.*

This is an exciting and challenging time to study business environment. Never before the business environment has been so volatile and dynamic as it is today. Never before the challenges of managing a business successfully as daunting as they are now. Never before there were as many opportunities to strike and prosper as they are seen now. And never before, reading of this book was more appropriate and galvanising than it is now. Welcome to the ever green field of business environment. We will explain to you the nature of business first followed by other perspectives of business environment later.

NATURE OF BUSINESS

Business may be understood as the organised efforts of enterprises to supply consumers with goods and services for a profit.

Businesses vary in size, as measured by the number of employees or by sales volume. Large organisations such as Steel Authority of India Limited (SAIL) and Tata and Iron and Steel Company Limited (TISCO) count their employees in the hundred thousands and their sales revenues in thousands of crores. But most business units in our country are small units-independently owned and managed and employing fewer than twenty employees each.

Whether a business unit has one or two people working at home, 10 operating in a retail store, 1000 employed in a factory, or 100,000 operating in multiple units spread across the country, all businesses share the same purpose: *to earn profits*.

PURPOSE OF BUSINESS

The purpose of business goes beyond earning profit. It is an important institution in society. Be it for the supply of goods and services; creation of job opportunities; offer of better quality of life; or contributing to the economic growth of the country and putting it on the global map; the role of business is crucial. Society cannot do without business. It needs no emphasis that business needs society as much.

SCOPE OF BUSINESS

The scope of business is indeed vast. The various different activities that bring raw materials to the factory and the end product from there to the market constitute business. Let us assume that you have decided to buy an automobile. Behind your purchase, there is the supplier of raw materials; there is the manufacturer who converts these raw materials and other inputs into usable vehicles; there is the dealer who makes the vehicles available at places convenient to you; there is the transport agent who assists in moving materials to the manufacturing plant and vehicles from plant to the market; there is the banker to finance various activities; there is the advertising agency which tells you about the vehicles, where and how they can be procured; there is the insurance agent who assumes risks on your behalf; and a host of other activities. Not only an automobile, even a simple item such as a ball pen necessitates a long chain of activities so as to make your purchase possible.

In other words, business includes all activities connected with production, trade, banking, insurance, finance, agency, advertising, packaging and numerous other related activities. Business also includes all efforts to comply with legal restrictions and government requirements and discharging obligations to consumers, employees, owners and to other interest groups which have stakes in business directly or indirectly.

What is important and what needs emphasis in the term '*business*' is that all the above activities are being organised and carried on with an important purpose, viz., earn profit by supplying goods and services to consumers to satisfy their felt needs. Thus, people occupy a central place around whom, by whom and for whom business is run. Business is people.

No wonder the principles and practices of managing a business are finding their place in non-business organisations too. Take an NGO (non-profit organisation), a hospital, or a B-School, you find designations of individuals like Vice-President, executive, and corporate and business practices like TQM and re-engineering being replicated. These and similar other organisations do not claim to work for profit but what all they do, do reflect business functions. They are justified in doing so. Competition among them is so severe, that they need to professionalise their practices if they were to survive and prosper.

CLASSIFICATION OF BUSINESS ACTIVITIES

Business is an organised effort of enterprise to supply consumers with goods and services for a profit. Business firms exist because of unlimited wants of human beings and they satisfy human needs/wants. Food, clothing and shelter are the three basic requirements of human beings. But today we are consuming a wide variety of products and/or services in our day-to-day life. From morning we use tooth paste and evenly while going to bed we write diary. Apart from this we use a variety of products, which are manufactured by business enterprises, manufacturers take the help of middle men to distribute goods to the consumer. Therefore business activities may be broadly classified into two categories: (1) Industry and (2) Commerce [Both these discussed in chapter 2]

BUSINESS OBJECTIVES

Before we describe business objectives, it is desirable to be clear about related concepts, viz., vision, mission and objectives.

Vision: A vision is a broad explanation of why the firm exists and where it is trying to lead. The vision provides the point of reference on the horizon—a beacon of light. The vision seeks to answer the following questions:

Where do we go from here?

What changes lie ahead in the business landscape?

What differences will these changes make to the company's present business?

The vision gives the organisation a sense of purpose and a set of values that unite employees in a common destiny. The most effective vision is the one that inspires, and this inspiration often takes the form of asking for the best, the most or the greatest. It may be the best service, the most rugged product, or the greatest sense of achievement, but it must be inspirational. The vision of Infosys is-

“To be a globally respected corporation that provides best-of-breed business solutions, leveraging technology, vendors and society at large.”

Mission: A mission statement outlines the fundamental purpose of the organisation. A vision becomes tangible as a mission statement. If the vision statement answers the question “where do we go from here?”, the mission statement answers “What is our business?”

A mission statement typically gives the organisation its own unique identity, business emphasis, and path for development. A mission statement incorporates four elements:

1. Customer needs, or **what** is being satisfied.
2. Customer groups, or **who** is being satisfied.
3. The company's activities, technologies, and competencies, or **how** the firm goes about creating and delivering value to customers and satisfying their needs.
4. The company's concern for survival, its philosophy, its self-concept and its concern for public image.

As stated above, mission statements are highly personalised—unique to the organisation for which they are developed. It is, therefore, normal that different firms in the same industry shall have different mission statements. The mission statement of Tata Motors is different from the mission statement of Toyota Kirloskar.

The mission statements of some companies are as follows:

“To achieve our objectives in an environment of fairness, honesty, and courtesy towards our clients, employees, vendors and society at large” (Infosys).

“Ford Motor Company is a world leader in automotive and automotive-related products and services as well as in newer industries, such as aerospace, communications, and financial services. Our mission is to improve continually our products and services to meet our customers' needs, allowing us to prosper as a business and to provide a reasonable return for our stockholders, the owners of our business.”

Though mission statements are the hallmarks of successful organisations, not all Indian firms do have them.

Objectives

Mission statements are more specific than vision statements, but are not to be taken as concrete directions for action. Objectives render mission statements more concrete. In other words, mission statements seek to make a vision more specific and objectives are attempts to make mission statements more concrete. In short, they are compatible to each other. Objectives, therefore, represent the operational side of an organisation. We focus on objectives here.

It may be stated that a typical business unit seeks to achieve more than one objective and there are always restraints to the attainment of some objectives. Objectives vary with the passage of time. Objectives common to most contemporary businesses are explained here (Also see Fig.1.1).

1. Profit: Making profit is the primary goal of any business enterprise. Profit is the excess of income over expense. Profit is the main incentive, motivator, strong sustainer, judicious allocator of resources, objective indicator of productivity and a solid basis for growth, expansion and survival. Profit enables a businessman to realise his other objectives too.

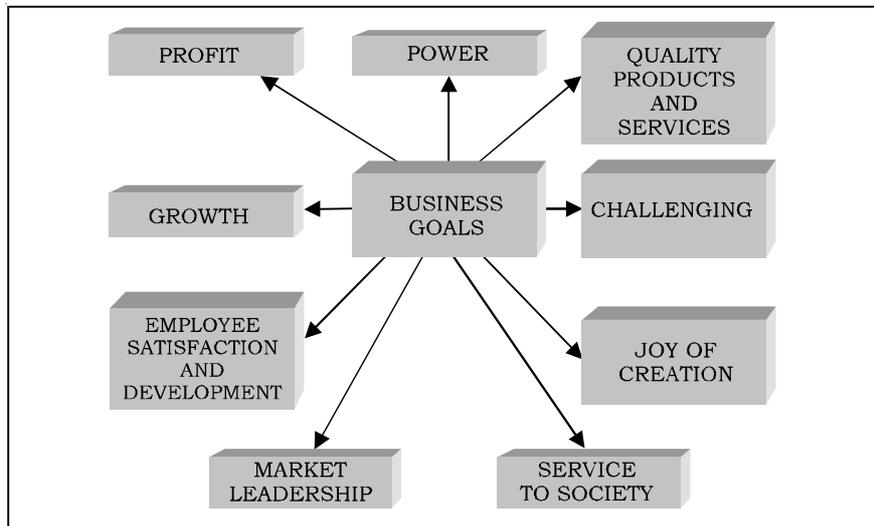


Fig. 1.1 Business Objectives

Not all enterprises are interested in making profits. For example, hospitals, schools, charitable institutions and government agencies are not basically concerned with the acquisition of profits. The non-profit enterprises customarily rely on gifts, endowments, receipts from money raising projects, subsidies or taxes for sustenance. The basic objective of these establishments is the provision of a service which is socially desirable and useful.

In profit-making enterprises, profit should not be the end in itself. Profit should be the beginning — acting as seed money for more products, more plants, more dividends, more tax payments, more jobs and more opportunities. Profits should promote the well-being of all... the rich and the poor; privileged and less privileged; consumers and producers and investors and non-investors. Ignoring this and over-emphasizing profit may bring early death to an enterprise. For instance, wrote George R. Terry, “*promoting only products with high margins (to earn profits), ignoring research, and failing to provide working conditions satisfactory to employees, may in the ultimate, bring about the demise of an enterprise.*”

2. Growth: Growth is another primary objective of business. Business should grow in all directions over a period of time. An enterprise which remains stagnant for long is presumed to suffer from an organic defect.

The strategies adopted to achieve growth are:

- (a) add more products/markets;
- (b) diversify into new areas;
- (c) integration—forward or backward;
- (d) increase market share;
- (e) expand markets or
- (f) cut down costs and increase productivity.

3. Power: Business houses have vast resources (in the form of money, materials, men and know-how) at its command. These resources confer enormous economic and political power on owners and managers of business ventures. Next to the Prime Minister and Chief Ministers, perhaps, it is the business people who enjoy considerable clout in our country. Some businessmen mince no words in expressing the desire that they want more power. The late Aditya Birla used to assert that he built his empire to get more power.

Several enlightened businessmen have used their power for the good of society. One such illustration in our country was J.N.Tata, who passed away in 1904. He was a pioneer in industry, research, health care, art, literature and in many other areas. His name inspires awe and respect. It is hard to imagine what would have happened to the industrial map of our country if J.N.Tata had not been born in 1839 in a family of Parsi priests in Gujarat. *“He was above all a patriot”*, wrote *The Times of India* (April 13, 1912) *“who made no public speeches. To his mind, wealth and the industry which led to wealth, were not ends in themselves, but means to an end, the stimulation of the latent resources of the country and its elevation in the scale of nations.”*

4. Employee Satisfaction and Development: *“If you want to plan for a year, plant corn. If you want to plan for 30 years, plant a tree. But if you want to plan for 100 years, plant men”*-so goes a Chinese proverb. Business is people, said we, in the beginning of this chapter. Caring for employee satisfaction and providing for their development has been one of the objectives of enlightened business enterprises.

Concern for employees continues to be an important aspect of management, contrary to the expectation that human element will lose its significance thanks to automation. In fact, quality of personnel is considered to be one of the hallmarks of best managed and highly respected companies.

The Tatas are a legend in pursuing this objective. Either in implementing labour welfare measures, constituting safety and security measures, or in providing training and development facilities, the name of Tatas should be mentioned first.

5. Quality Products and Services: Providing quality products and services is yet another objective of business. Those who insisted on and persisted in quality survived competition and stayed ahead of others in the market. Persistent quality of products earns brand loyalty, a vital ingredient of success. Hindustan Lever is flourishing mainly because of the quality of its products. Some of its products like Liril, Vim, Lifebuoy, Surf, Rin, Sunlight, Signal, Close-up, Lux, Rexona, Pears and others have become household names throughout the country. These products are accepted by buyers as safe, of high quality and reasonably priced. Behind its quality products, Hindustan Lever has an excellent Research and Development (R&D) set-up and a high degree of professional management. The company is sitting pretty and is almost invincible.

There are other business people who believe in quick money. Quick money comes through short-cuts. These are the people who give us razor blades which fail to give us one smooth and neat shave, bulbs that do not give at least 100 light hours of service, leaky taps and adulterated goods. Such enterprises will not survive for long.

6. Market Leadership: To earn market leadership is yet another objective of business. To earn a niche for oneself in the market, innovation is the key factor. Innovation may be in product, advertising, distribution, finance or in any other field. Blow Plast retains its market leadership by introducing soft luggage bags and totes. Hindustan Lever earned leadership in tooth paste by introducing mouth-washer in its 'Close-up.' Asian Paints adopted unconventional channels for the sale of its paints, which has pushed them ahead of their competitors. Ambani of Reliance Textiles introduced convertible debentures which have become attractive. This and other financial wizardries enabled Reliance to receive unprecedented response from investing public to any of its issues of securities.

7. Challenging: Business offers vast scope and poses formidable challenges. Success in a business venture smacks of the abilities of individuals who own and failure betrays their inability and incompetence. The worth of an individual is tested more in business than in any other profession.

For Ratan Tata running business has been a challenge. Confessed Tata is an interview thus: "I have asked myself this quite often. I don't have monetary ownership in the company in which I work and I am not given to propagating the position I am in. I ask myself why I am doing this and I think it is perhaps the challenge. If I had an ideological choice, I would probably want to do something more for the uplift of the people of India. I have a strong desire not to make money but to see happiness created in a place where there isn't".

8. Joy of Creation: It is through business strategies new ideas and innovations are given a shape and are converted into useful products and services for the benefit of customers.

Although it may be too difficult to list all the products and services that business houses have provided us till now, it is interesting to mention that in the coming two or three decades, the following will receive considerable attention from researchers and business people:

- Readily available artificial human organs, except the brain.
- A means of transportation without an automobile, perhaps an individual flying machine.
- Drugs to cure or prevent cancer and the common cold.
- A personal telephone, no larger than a cigarette pack, that can be used from any location.
- A pocket sized personal/business computer- i.e., a laptop or palm computers.
- Clothing that can be cleaned by placing it in a 'cleaning chamber' for one minute.
- A synthetic material to replace wood.
- A simple injection to determine the sex of an unborn child.

Will there be a greater joy to a businessman coming out with a drug which can cure cancer? Its availability in the market will be of benefit to those who need it.

9. Service to Society: Business is a part of society and has several obligations towards it. Some of them are:

- (i) providing safe and quality goods at reasonable prices;
- (ii) providing employment;
- (iii) patronising cultural and religious activities;
- (iv) maintaining and protecting ecology and

- (v) supporting less privileged sections of people in society like Scheduled Castes and Scheduled Tribes, the physically handicapped, women and children.

Services of society is the main objective of a non-profit-making enterprise. Profit-making enterprises cannot afford to have service as the primary objective. It will be a secondary objective.

10. Good Corporate Citizenship: Good corporate citizenship implies that the business unit complies with the rules of the land, pays taxes to the government regularly, discharges its obligations to society and cares for its employees and customers.

Bending rules of the land, evading tax payments by under-invoicing exports and dubious tax-planning; cornering licences at the cost of others; adulteration of quality products; and indulging in other unethical practices may earn money. But such practices hardly speak highly of corporate citizenship. The Tatas are a contrast to the general trend. Unethical practices are anathema to the Tatas. The best way to substantiate this claim is to quote J.R.D. Tata. *“This factor has also worked against our growth. What would have happened if our philosophy was like that of some other companies which do not stop at any means to attain their ends. I have often thought of that and I have come to the conclusion that if we were like these other groups, we would be twice as big as we are today. What we have sacrificed is a 100 per cent growth.”*

CRITICS OF BUSINESS

The discussion till now has reflected the positive side of business. There is also the negative side to it and the critics are not lagging behind in pointing out the shortcomings. The criticisms are many, but all are based on one idea, viz., people in business place profits before enduring values such as honesty, truth, justice, love, devoutness, aesthetic merit and respect for nature. Specific criticisms are the following:

1. Business activity has a corrosive effect on a range of cherished cultural values.
2. Business dehumanises and exploits workers.
3. Business harms interests of consumers.
4. Business degrades nature and the environment.
5. Business has destroyed handicraft and rendered artisans jobless.
6. Business causes scams and scandals.
7. Business multiplies needs and makes people greedy and avaricious.
8. Business leaders bend rules, cut corners, bribe officials and challenge existing authority.

Is business that bad? Has not business benefited society? Has it not built factories, provided jobs, saved lives and invented new things to the needy? Has not business promoted positive cultural values such as imagination, innovation, organised co-operation, hard work and orderly life? Has business not improved the standard of living of people? Has it not lifted millions of people from poverty, ignorance, squalor and disease? Has business not brought the entire globe closer? Answers to all these and other questions are on the affirmative.

A wide range of critics differ in the nature of their attacks and their prescriptions to eliminate perceived ills. For our purpose, there are five groups of critics. (see Fig. 1.2).

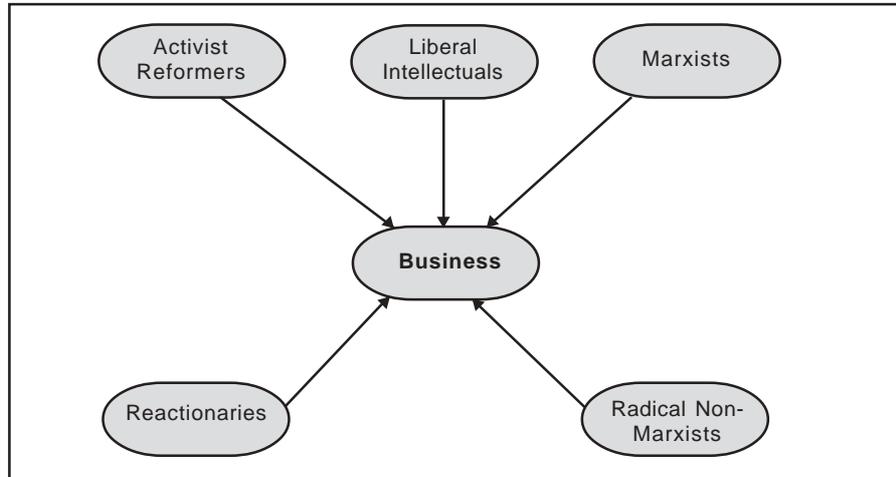


Fig. 1.2 Business Critics

1. Activist Reformers: This group comprises individuals and groups who accept and respect the basic legitimacy of the business system, but find flaws and try to rectify them. The philosophy of the activist reformer is exemplified by consumer Gandhi-Ralph Nader, who accepts American capitalism in its democratic setting but sees an imbalance of power between the people and the plutocracy. For 30 years, Nader has worked to redress this imbalance by building an organisation of public interest groups through which he and his followers pressure business houses and the government to accomplish reforms.

Activist reformers use a variety of tactics to make business houses follow fair business practices. Common tactics include negotiation, letter writing, speeches, lobbying legislatures and regulatory agencies, research and editorial writing. Labour unions frequently picket companies.

2. Liberal Intellectuals: This group is comprised of thinkers who share a broad approach to social problems which they express with their pen rather than with the sword of criticism. This group believes that (i) human rights should be protected and enhanced, (ii) there is need to restrict corporate power, (iii) social arrangements can be improved through reforms, and (iv) government should be used to correct problems in society. Liberal intellectuals have a basic faith in democratic capitalism, but they find blemishes and suggest remedies consonant with their ideology. The writings of intellectuals with these broad beliefs have, over the years, been a source of great insight and timely ideas for reform.

Several great thinkers belong to the liberal intellectuals group. Galbraith, for instance, has written numerous books over 40 years advocating greater government control of business to reverse the loss of consumer sovereignty that results from the growth of large corporations. Similarly, in his 1956 book, *The Organisation Man*, sociologist, William H. Whyte, Jr., argued that big organisations produced undesirable conformity in employees.

3. Marxists: These critics reject current institutional structures and demand replacement with a collective state. Unlike reform-oriented critics, this group believes that the faults of capitalism cannot be ameliorated through gradual reforms. Basic institutions such as free market and private capital must be swept away.

Inspired by their intellectual progenitor, Karl Marx, these critics held sway over the world for a long time. But today, their influence is waning. The overthrow of Marxist

governments in Eastern Europe in 1989 and 1990 and the deteriorated economies of the former Soviet republics have blunted the appeal of their critique. Though the movement is moribund, to dismiss it now might be premature.

4. Radical Non-Marxists: The great economist E.F.Schumacher, who wrote *Small is Beautiful*, is one of the radical non-marxist critics. Schumacher believes in restructuring the economy by limiting or ending growth. The radical non-marxist critics argue that industrialisation is seriously endangering stable social and environmental existence on this planet. Materialism, competition, tireless labour and individualism which are hallmarks of an industrial society are to be replaced by moderation, group harmony, co-operation and leisure.

5. Reactionaries: Reactionary critics assail corporations for responding to liberal critics, going too far in the direction of non-market social responsibilities, or taking political and moral stands that conflict with conservative positions. Milton Friedman, for instance, rebukes business houses for undertaking social responsibility activities that depart from its traditional economic role.

Thus, critics of business are many and their arguments are valid and deserve serious attention by business firms and governments. If criticism is properly channelled, it can preserve the best of the business institutions and usher in wider benefits.

REVIEW QUESTIONS

Conceptual Type

1. Define business.
2. List any four business activities.
3. Give the purpose of business.
4. List out the characteristics of contemporary business.
5. Bring out the objectives of the business.

Analytical Type

1. Explain the nature of the business.
2. How does business of today differ from that of four to five decades?
3. "Profit making is the primary goal of any business enterprise". Yes or no. Explain.
4. Explain the various business activities.

Essay Type

1. Explain the characteristics, objectives and critics of business.

SKILL-BUILDING EXERCISES

1. Divide the class into batches of five students. Each batch should pick up any Indian Company and describe which of them is adopting environmental analysis and why? Batches should take one week for preparation. Presentation in the class to follow on an appointed day.
2. Take another look at Fig. 1.1. Can you add/delete it? Try.
3. Read back issues of **Business Today** or **Business India**. Pick up stories on a few companies. Read them and make notes on their nature of business, objectives and strategies. Presentation to the class can follow.

4. Several dimensions of Indian business have been explained in this chapter. Which of them, according to you, is closer to the contemporary business?
5. As an individual what is your interaction with business in your daily life? Write about 10 sentences. In the light of your experience, do you agree with the criticisms of business shown in Fig.1.2.
6. Take a look at Fig.1.1. Can you add/delete/change the figure?

