

Chapter 3 · Business Environment

CBSE Class 12 Business Studies (054) · Part A · Unit 3 · Ultimate Revision Sheet

READ THIS FIRST — SYLLABUS ALERT

The official CBSE 2026-27 syllabus lists only three things for this unit: concept and importance of business environment, its five dimensions, and demonetisation (concept and features). The New Industrial Policy 1991, Liberalisation / Privatisation / Globalisation and Impact of government policy changes on business and industry are no longer listed — they appear in older editions and in many school note sets (including the one you gave me). They are kept below, clearly marked, because schools often still test them internally. Confirm with your teacher before dropping them; for the board paper, prioritise Sections 1–3 and 5.

60-SECOND RECALL

Definition	Sum total of all individuals, institutions and other forces outside the control of a business but which may affect its performance .
Features (7)	Totality of external forces, Specific & general forces, Inter-relatedness, Dynamic, Uncertainty, Complexity, Relativity
Importance (6)	Opportunities (first-mover), Threats (early warning), Tap resources, Cope with rapid change, Planning & policy, Improve performance
Dimensions (5)	E-S-T-P-L — Economic, Social, Technological, Political, Legal
NEP 1991	LPG — Liberalisation, Privatisation, Globalisation (<i>not in the 2026-27 board syllabus</i>)
Demonetisation	8 Nov 2016 — ₹500 and ₹1000 notes ceased to be legal tender
Impact on business (7)	Competition, Demanding customers, Technology, Necessity for change, HR development, Market orientation, Loss of budgetary support (<i>not in the 2026-27 board syllabus</i>)

1. Meaning & Features

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Business environment means the sum total of all individuals, institutions and other forces that are **outside the control** of a business enterprise but that **may affect its performance**. The social, political, economic, technological and legal factors that operate outside a business form part of its business environment.

1. **Totality of external forces** — it is the **sum total** of every external force: government, competitors, customers, suppliers, technology and so on.
2. **Specific and general forces** — **Specific** forces (customers, competitors, suppliers, investors) affect **one particular firm directly**. **General** forces (social, political, legal, technological conditions) affect the **whole industry** and so affect a firm **indirectly**.
3. **Inter-relatedness** — the different forces are closely related; a change in one causes a change in another. Eg: a change in government (political) leads to a change in tax and import-export rates (economic).
4. **Dynamic nature** — the environment **keeps changing** because of shifts in technology, consumer preferences and availability of raw materials.

5. **Uncertainty** — constant and rapid change makes it **difficult to predict** future changes, especially in fashion and IT.
6. **Complexity** — because the forces are inter-related and dynamic, it is **difficult to prepare a single strategy** to handle all the changes; the environment can be understood in parts but not as a whole.
7. **Relativity** — the impact of the same change **differs** from business to business, country to country and region to region. Eg: a rise in demand for cotton clothes in summer in India, but a fall in a cold country.

2. Importance of Business Environment

O-T-R-C-P-P — Opportunities, Threats, Resources, Cope with change, Planning & policy, Performance

1. It enables the firm to identify opportunities and get the first-mover advantage — positive external changes are opportunities; the firm that identifies them first benefits most.
2. It helps the firm to identify threats and early warning signals — adverse changes are threats; early identification lets managers convert threats into opportunities.
3. It helps in tapping useful resources — the firm draws inputs (finance, labour, machines, raw material) from the environment and supplies its output back to it, so it must design policies that let it get the resources it needs.
4. It helps in coping with rapid changes — a turbulent market requires managers to develop strategies not only to cope with change but to use it as a strength.
5. It helps in assisting in planning and policy formulation — understanding the environment is the basis on which future plans and strategies are built.
6. It helps in improving performance — continuous monitoring and changing business practices improves present performance and helps retain market position in the long run.

TRAP An **opportunity** is a positive external change; a **threat** is an adverse one. Both come from **outside**. Do not label an internal weakness (poor machinery, untrained staff) as a threat — that is not part of the business environment.

3. Dimensions of Business Environment

E-S-T-P-L — Economic, Social, Technological, Political, Legal

Dimension	Includes	Example
Economic	Interest rates, inflation, money supply, price level, stock market indices, value of the rupee, disposable income of consumers	A rise in inflation reduces disposable income, so demand for products falls
Social	Customs, traditions, values, culture, social trends, beliefs, ethics, literacy rate, life expectancy	Greater awareness of rights makes businesses more concerned about quality; demand for fast food and ready-made garments rises as more women join the workforce

Technological	Scientific improvements and innovations that provide new ways of producing goods and new methods and techniques	Shift from books to e-books; from landlines to touchscreen mobile phones; UPI replacing cash
Political	Political stability, political leadership, practices of the ruling party, attitude of government towards business, change of government	A stable government with a business-friendly policy attracts more foreign investment
Legal	All legislation passed, administrative orders issued, court judgements, decisions taken by government or its related offices	Every cigarette packet must carry the statutory warning; advertising of alcohol is prohibited

TRAP *Political vs Legal is the most commonly mixed-up pair. Political = the government and its attitude/stability. Legal = the actual laws, court judgements and regulations. "A new law was passed" → Legal. "A new government came to power" → Political.*

4. Economic Environment in India & the NEP, 1991 NOT IN 2026-27 BOARD SYLLABUS

Why the reforms were needed (background)

- High government deficit and mounting public debt
- Foreign exchange crisis — reserves fell to barely a few weeks of imports
- Rising prices / high inflation
- Poor performance of many public sector undertakings

The Government therefore announced the **New Industrial Policy, 1991**, aimed at overcoming these economic problems.

Features of the New Industrial Policy, 1991

1. Industries requiring **compulsory licensing** were brought down to six.
2. **Dereservation of industries** — the number of industries reserved for the public sector was reduced from 17 to a handful (later just **two**: atomic energy and railways).
3. **Disinvestment** was carried out in many public sector enterprises.
4. **Foreign capital policy** was liberalised; **FDI up to 100%** was permitted in many sectors.
5. **Automatic approval** was given for technology agreements with foreign countries.
6. The **Foreign Investment Promotion Board (FIPB)** was set up to promote and channel foreign investment into India.

The three prongs — L, P and G

Reform	Meaning	Main objectives / effects
LIBERALISATION	Removing unnecessary controls, licensing and restrictions in the economy — marking the end of licence raj in India.	Restrict licensing to a few core industries · Remove restrictions on scale of operations, expansion and contraction · Free movement of goods and services · Freedom to fix prices · Reduce tax rates · Simplify import and export procedures · Liberalise import of foreign capital and technology
PRIVATISATION	Shifting the responsibility for development from the public sector to the private sector . A private-sector enterprise is one where government ownership is less than 51% .	Introduce disinvestment of the public sector · Dilute government ownership stake to below 51% · Establish the Board of Industrial and Financial Reconstruction (BIFR) to evaluate loss-making and sick enterprises · Transfer ownership to the private sector

GLOBALISATION	Integration of the economy of a country with the world economy — opening ways for various economies to participate in the making of a global economy.	Free flow of imports and exports around the world · Rapid advancement in technology as geographical boundaries stop being a barrier · Free flow of capital and labour across countries
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5. Demonetisation (8 November 2016)

DEFINITION Demonetisation means invalidating all the currency notes of a particular denomination by the government of a country. On 8 November 2016 the Indian Government demonetised the two largest denomination notes, ₹500 and ₹1000, with the aim of curbing corruption, black money and illegal activities and stopping the hoarding of black money.

Features of Demonetisation

1. It was a **tax administration measure** — cash had to be deposited into banks to be exchanged, making payment of tax on unaccounted income compulsory, with a penalty rate.
2. It was a **measure to curb tax evasion** — declaring unaccounted wealth became unavoidable.
3. It **channelised savings into the formal financial system** — more savings entered banks, improving the tax payment system.
4. It **reduced cash transactions in the economy**.
5. It **facilitated tax administration and paved the way for a cash-less / cash-lite economy**.

Impact of Demonetisation

Area	Impact
Money / Interest rates	1. Decrease in cash transactions 2. Increase in bank deposits 3. Financial savings increased
Private wealth	Declined — high-value demonetised notes were not returned and real estate prices also fell
Public sector wealth	No effect
Digitalisation	Increase in digital transactions among new users (RuPay, AEPS, UPI, mobile wallets)
Real estate	Decrease in prices
Tax collection	Rose , due to higher disclosure of income

6. Impact of Government Policy Changes on Business and Industry

NOT IN 2026-27

BOARD SYLLABUS

The LPG reforms brought about a significant impact on Indian business and industry. The challenges are:

1. **Increasing competition** — more Indian firms and the entry of foreign companies raised competition, especially in the service industry.
2. **More demanding customers** — a greater number of enterprises gives consumers **wider choice**, which raises their expectations and demands.
3. **Rapidly changing technological environment** — firms must install the latest machinery and adopt the latest techniques, which increases investment in the business.
4. **Necessity for change** — businesses must continuously modify their policies and practices and invest in **research, development and innovation**.

5. **Need for developing human resources** — changing technology means staff must be educated and trained so they are competent to handle change.
6. **Market orientation** — firms had to shift from **production-oriented** operations to **market-oriented** operations, studying customer needs before producing.
7. **Loss of budgetary support to the public sector** — public sector units had to run in competition with the private sector and organise their own resources and functions efficiently.

7. Case-Study Keyword Triggers 40% of the paper is competency-based

If the case says...	The answer is...
"change in interest rate / inflation / disposable income"	Economic environment
"festival demand", "change in customs, values, lifestyle"	Social environment
"new machine / e-books / online payment / innovation"	Technological environment
"new government", "political stability", "attitude of ruling party"	Political environment
"Act passed", "court judgement", "statutory warning", "ban on advertisement"	Legal environment
"launched the product before its competitors"	First-mover advantage (Identify opportunities)
"sensed the danger early and changed strategy"	Identify threats / early warning signals
"affects only this one firm" (its customer, supplier, competitor)	Specific force
"affects the whole industry"	General force
"difficult to predict what will happen next"	Uncertainty
"same change helped one firm and hurt another"	Relativity
"licensing removed", "price controls lifted"	Liberalisation
"government sold its stake", "disinvestment"	Privatisation
"started exporting / foreign company entered India"	Globalisation
"trained staff to handle new technology"	Need for developing human resources
"studied customer needs before producing"	Market orientation

MOST-ASKED BOARD QUESTIONS

1. [6M] Explain the dimensions of business environment with examples.
2. [6M] Explain the impact of government policy changes on business and industry.
3. [4-6M] Explain the importance of understanding the business environment.
4. [4M] Explain any four features of business environment.
5. [4-6M] Explain the concepts of liberalisation, privatisation and globalisation.
6. [3-4M] Explain demonetisation and its impact / features.
7. [3M] Distinguish between specific and general forces of business environment.
8. [1M] Name two specific forces of business environment. → **Customers and competitors** (also suppliers, investors)

SCORING TIP — Every dimension answer must carry **an example**. A dimension named without an example typically earns only half the mark. Keep one ready example per dimension — inflation, festival demand, e-books, change of

government, statutory warning — and reuse them.