MODEL ANSWER

MBA I SEM. 2013

CODE AS- 2406

Subject : Business Environment

Section A

Short Answer Type Question

Ans 1: The macro environment of business includes major external and uncontrollable factors that influence an organization's decision making, and affect its performance and strategies. These factors include the economic factors; demographics; legal, political, and social conditions; technological changes; and natural forces. Specific examples of macro environment influences include competitors, changes in interest rates, changes in cultural tastes, disastrous weather, or government regulations.

Ans 2: The primary sector includes the industries engaged in production or extraction of natural resources such as crops, oil, and ores.

ans 3: An environmental analysis evaluates internal and external factors affecting an organization's performance, especially its marketing effort. Internal factors are referred to as the strengths and weaknesses of the organization. External factors are opportunities and threats presented by forces outside of the company. In general, this information is used by strategic planners in forecasting trends a year or more in advance. This method is distinct from surveillance, which focuses on a specific area or time.

Ans 4: Licensing is the process of leasing a legally protected (that is, trademarked or copyrighted) entity – a name, likeness, logo, trademark, graphic design, slogan, signature, character, or a combination of several of these elements. The entity, known as the property or intellectual property, is then used in conjunction with a product. Many major companies and the media consider licensing a significant marketing tool. Licensing is a marketing and brand extension tool that is widely used by everyone from major corporations to the smallest of small business. Entertainment, sports and fashion are the areas of licensing that are most readily apparent to consumers, but the business reaches into the worlds of corporate brands, art, publishing, colleges and universities and non-profit groups, to name a few.

Ans 5: capitalist economy is an economic system based on private ownership of capital. Main features of a capitalist economy are as follows:

(i) It is an economic system in which each individual in his capacity as a consumer, producer and resource owner is engaged in economic activity with a great degree of economic freedom.

(ii) The factors of production are privately owned and managed by individuals.

(iii) The main motive behind the working of the capitalist system is the profit motive. The entrepreneurs initiate production with a view to maximize profits.

(iv) Income is received in monetary form through the sale of services of the factors of production and fro: profits of private enterprise.

(v) Capitalist economy is not planned, controlled or regulated by the government. In this system, economic decisions and activities are guided by price mechanism which operates automatically without any direction and control by the central authorities.

(vi) Competition is the most important feature of the capitalist economy. It means the existence of large number of buyers and sellers in the market who are motivated by their self-interest but cannot influence market decisions by their individual actions.

Ans 6: Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ("Triple-Bottom-Line- Approach"), while at the same time addressing the expectations of shareholders and stakeholders. In this sense it is important to draw a distinction between CSR, which can be a strategic business management concept, and charity, sponsorships or philanthropy. Even though the latter can also make a valuable contribution to poverty reduction, will directly enhance the reputation of a company and strengthen its brand, the concept of CSR clearly goes beyond that.

Ans 7: technological environment includes factors in technology that impact business operations. Changes in technology affect how a company will do business. A business may have to dramatically change their operating strategy as a result of changes in the technological environment

Ans 8: Ken Gelder proposed to distinguish subcultures from countercultures based on the level of immersion in society. Gelder further proposed six key ways in which subcultures can be identified through their:

1. Often negative relations to work (as 'idle', 'parasitic', at play or at leisure, etc.);
2. negative or ambivalent relation to class (since subcultures are not 'class-conscious' and don't conform to traditional class definitions);
3. association with territory (the 'street', the 'hood', the club, etc.), rather than property;
4. movement out of the home and into non-domestic forms of belonging (i.e. social groups other than the family);
5. stylistic ties to excess and exaggeration (with some exceptions);
6. refusal of the banalities of ordinary life and massification

Ans 9: The government, in every country, regulates the business according to its defined priorities. Legal system of a country is framed by the government. The laws which are passed by the government for business operation is called legal environment. In every country, the government regulates business activities. These regulations of government are considered as legal environment. In practice legal and regulatory goes hand in hand. The limits for business operations are decided by regulatory environment & this is also called legal environment.

Legal environment in a country has a dominating position on all decisions of organization. As all business policies are highly influenced by government, the organization should have thorough knowledge of these policies because non-implementation of legal policies results in heavy fines, penalties & punishment & therefore every organization must follow all these regulations.

Ans 10: The Foreign Exchange Management Act (FEMA) is a 1999 Indian law "to consolidate and amend the law relating to foreign exchange with the objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in India". It was passed in the winter session of Parliament in 1999, replacing the Foreign Exchange Regulation Act (FERA). This act seeks to make offenses related to foreign exchange civil offenses. It extends to the whole of India., replacing FERA, which had become incompatible with the pro-liberalization policies of the Government of India. It enabled a new foreign exchange management regime consistent with the emerging framework of the World Trade Organization (WTO). It is another matter that the enactment of FEMA also brought with it the Prevention of Money Laundering Act of 2002, which came into effect from 1 July 2005.

SECTION B (Long Answer Type Question)

Ans 1: Various components of business environment are as under

A. Internal environment

Internal environment includes all those factors which influence business and which are present within the business itself. These factors are usually under the control of business. The study of internal factors is really important for the study of internal environment. These factors are:(i) Objectives of Business, (ii) Policies of Business, (iii) Production Capacity, (iv) Production Methods, (v) Management Information System, (vi) Participation in Management, (vii) Composition of Board of Directors, (viii) Managerial Attitude, (ix) Organizational Structure, (x) Features of Human Resource, etc.

B. External Environment

External environment includes all those factors which influence business and exist outside the business. Business has no control over these factors. The information about these factors is important for the study of the external environment. Some of these factors are those with which a particular company has very close relationship. However, there are some other factors which influence the entire business community. Micro environment means that environment which includes those factors with which business is closely related. These factors influence every industrial unit differently. These factors are as under:

(i) Customers (ii) Suppliers (iii) Competitors (iv) Public (v) Marketing Intermediaries.

(i) Customers:

Customers of an industrial unit can be of different types. They include household, government, industry, commercial enterprises, etc. The number of different types of customers highly influences a firm.For example, suppose a firm supplies goods only to the government. It means that firm has only one customer. If because of some reason their relations get soured, the supply of goods will stop and in that case the closure of that firm is certain. This clearly indicates that the customers do influence business. Therefore, a firm should make efforts to have different kinds of customers,

(ii) Suppliers:

Like the customers, the suppliers also influence business. If a business has only one supplier and he gets annoyed because of some reason, the supply of goods can be stopped and the very existence of the business can be threatened or endangered. Hence, efforts should be made to have various suppliers.

(iii) Competitors:

The competing firms can influence business in a number of ways. They can do so by bringing new and cheap products in the market, by launching some sale promotion scheme or other similar methods.

(iv) Public:

Public has different constituents like the local public, press or media, etc. The attitude or behaviour of these constituents can affect business units. For example, the local population can oppose some established firm whose business is excessively noisy. Similarly, if the media gives some favourable report about a particular company the price of its share can register an increase on this count.

(v) Marketing Intermediaries:

The marketing intermediaries play a significant role in developing any business unit. They are those persons who reduce the distance between the producers and agents. For example, a company sells its goods with the help of agents and if because of some reason all the agents get annoyed with the company and refuse to sell its goods, there can be a crisis for the company.

Ans 2: The competition law of India, namely, the Monopolies and Restrictive Trade Practices Act, 1969 (MRTP Act, for brief) was one such. It was in 1991 that widespread economic reforms were undertaken and consequently the march from "Command-and-Control" economy to an economy based more on free market principles commenced its stride. As is true of many countries, economic liberalization has taken root in India and the need for an effective competition regime has also been recognized.

OBJECTIVES

The principal objectives sought to be achieved through the MRTP Act are:

i) Prevention of concentration of economic power to the common detriment;
ii) Control of monopolies;
iii) Prohibition of Monopolistic Trade Practices (MTP);
iv) Prohibition of Restrictive Trade Practices (RTP);
v) Prohibition of Unfair Trade Practices (UTP).

In the context of the new economic policy paradigm, India has chosen to enact a new competition law called the Competition Act, 2002 (Act, for brief). The MRTP Act has metamorphosed into the new law, Competition Act, 2002. The new law is designed to repeal the extant MRTP Act. As of now, only a few provisions of the new law have been brought into force and the process of constituting the regulatory authority, namely, the Competition Commission of India under the new Act, is on. The remaining provisions of the new law will be brought into force in a phased manner. For the present, the outgoing law, MRTP Act, 1969 and the new law, Competition Act, 2002 are concurrently in force, though as mentioned above, only some provisions of the new law have been brought into force.

Ans 4: When India achieved Independence in 1947, the national consensus was in favour of rapid industrialization of the economy which was seen not only as the key to economic development but also to economic sovereignty. In the subsequent years, India's Industrial Policy evolved through successive Industrial Policy Resolutions and Industrial Policy Statements. Specific priorities for industrial development were also laid down in the successive Five Year Plans.

Building on the so-called "Bombay Plan"1 in the pre-Independence era, the first Industrial Policy Resolution announced in 1948 laid down broad contours of the strategy of industrial development. At that time the Constitution of India had not taken final shape nor was the Planning Commission constituted. Moreover, the necessary legal framework was also not put in place. Not surprisingly therefore, the Resolution was somewhat broad in its scope and direction. Yet, an important distinction was made among industries to be kept under the exclusive ownership of Government, i.e., the public sector, those reserved for private sector and the joint sector. Subsequently, the Indian Constitution was adopted in January 1950, the Planning Commission was constituted in March 1950 and the Industrial (Department and Regulation) Act (IDR Act) was enacted in 1951 with the objective of empowering the Government to take necessary steps to regulate the pattern of industrial development through licensing. This paved the way for the Industrial Policy Resolution of 1956, which was the first comprehensive statement on the strategy for industrial development in India.

Industrial Policy Resolution - 1956 The Industrial Policy Resolution - 1956 was shaped by the Mahalanobis Model of growth, which suggested that emphasis on heavy industries would lead the economy towards a long term higher growth path. The Resolution widened the scope of the public sector. The objective was to accelerate economic growth and boost the process of industrialization as a means to achieving a socialistic pattern of society. Given the scarce capital and inadequate entrepreneurial base, the Resolution accorded a predominant role to the State to assume direct responsibility for industrial development. All industries of basic and strategic importance and those in the nature of public utility services besides those requiring large scale investment were reserved for the public sector.

The Industrial Policy Statement of 1991 stated that “the Government will continue to pursue a sound policy framework encompassing encouragement of entrepreneurship, development of indigenous technology through investment in research and development, bringing in new technology, dismantling of the regulatory system, development of the capital markets and increased competitiveness for the benefit of common man". It further added that "the spread of industrialization to backward areas of the country will be actively promoted through appropriate incentives, institutions and infrastructure investments”. The objective of the Industrial Policy Statement - 1991 was to maintain sustained growth in productivity, enhance gainful employment and achieve optimal utilization of human resources, to attain international competitiveness, and to transform India into a major partner and player in the global arena.

Objectives of new industrial policy are:

2.1 To encourage development of allied sectors parallel to core sector.

2.2 To generate self-employment as well as additional employment opportunities in industries to the local residents of the State.

2.3 To promote private sector participation for the development of basic and industrial infrastructure.

2.4 To create an enabling environment and infrastructure for encouraging export from the state.

2.5 To create competitive platform amongst the states for domestic as well as foreign direct investment and attract NRI as well as 100% FDI investment so as to accelerate industrial investment.

2.6 To extend more economical aids in backward areas of the state for balanced industrial development

2.7 To make special efforts towards bringing the poor, backward class people such as SC/ST, females, handicaps, retired soldiers, etc.

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Objectives of new industrial policy(2009-14) are as under:

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2.7 To make special efforts towards bringing the poor, backward class people such as SC/ST, females, handicaps, retired soldiers, naxalite affected families in the common stream line of economical and industrial development

Ans 6: Corporate social responsibility (CSR), also known as sustainable responsible business (SRB), or corporate social performance, is a form of corporate self-regulation integrated into a business model. Ideally, CSR policy would function as a built-in, self-regulating mechanism whereby business would monitor and ensure their adherence to law, ethical standards, and internati onal norms. Business would embrace responsibility for the impact of their activities on the environment, consumers, employees, communities, stockholders and all other members of the public sphere Corporate Social Responsibility is a very well-known concept in the present day world. Infact the corporate giants are very conversant with corporate social responsibility or corporate sustainability –in today's parlance.. The responsibility they have towards the society and the community as a whole cannot be denied. A tremendous surge and then a sustained consistency in the progress of the concept of CSR has been witnessed over a span of quite a number of years, elevating it to the highest pedestal of importance in all aspects of business and production, be it private or public.
In the modern times the concept CSR incorporates and strives to explain and clarify numerous co related and uncorrelated issues peculiarly, particularly or especially pertinent to SOCIAL and environmental interests and welfare, keeping in full view the financial interests and benefits of the shareholders. Responsibility has more or less taken the shape of accountability and obligation. Business ethics has also been brought into the arena of corporate social responsibility. Infact an ethical business performance acts as a positive catalyst in hastening the process of corporate success via motivating the employees and the underlying system. Corporate Social Responsibility (CSR) is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources. However it is not charity but it is a core business strategy of an organization. It is not a common term, in fact many Indian companies talked about responsible business or triple P(People, Planet and Profit).Some others of corporate citizenship or stewardship, responsible entrepreneurship and triple bottom line. Responsible competitiveness is nothing other than CSR.

An important issue is what stakeholder relationships are when business management is assessed from the point of view of CSR .Considering, for example, the case of shareholders, these being some of the most important stakeholders in a corporation, they generally want good returns on their investments, and thus demand high profits, growth and share prices. If these are not achieved, they put pressure on management, via the shareholders' committee, or they simply sell their shares. In other words, the actions of shareholders constitute a major restrictive factor on a corporation's activities. On the other hand, there have been actions taken by shareholders in the context of CSR, and the roles of socially responsible investment (SRI) funds can be given as an example in this respect. SRI funds have an approach to investment that involves taking social and environmental factors into account in addition to financial performance when selecting the companies with which to invest, and these funds maintain a strong position, especially among institutional investors such as pension funds, in Europe and the USA.

One of the tools used by SRI funds for selection of companies in which to invest is called 'negative screening'. This involves comparing companies with ethical criteria, and eliminating companies engaged in ethically unacceptable corporate activities. Such activities include paying low wages, having unsafe and/or unhygienic working conditions, using child labour, discriminating against ethnic minorities, polluting the environment, and supporting dictatorial regimes. If the fund judges a company to be problematic in one or more of these respects, the fund eliminates it from its list of investment-worthy companies, or, if it has already invested in it, it sells up and severs connection. In addition, shareholder activism is a method used by SRI funds.

Ans 7: Indian economy is based on the concept of planning. This is carried through her five-year plans, developed, executed and monitored by the Planning Commission. With the Prime Minister as the ex-officio Chairman, the commission has a nominated Deputy Chairman, who has rank of a Cabinet Minister. Montek Singh Ahluwalia is currently the Deputy Chairman of the Commission. The eleventh plan completed its term in March 2012 and the twelfth plan is currently underway.[1] Prior to the fourth plan, the allocation of state resources was based on schematic patterns rather than a transparent and objective mechanism, which led to the adoption of the Gadgil formula in 1969. Revised versions of the formula have been used since then to determine the allocation of central assistance for state plans.

Twelfth Plan is characterised by strong macro fundamentals and good performance over the Eleventh Plan period, though clouded by some slowdown in growth in the current year with continuing concern about inflation and a sudden increase in uncertainty about the global economy. The objective of the Eleventh Plan was faster and inclusive growth and the initiatives taken in the Eleventh Plan period have resulted in substantial progress towards both objectives. Inevitably, there are some weaknesses that need to be addressed and new challenges that need to be faced. Some of the challenges themselves emanate from the economy's transition to a higher and more inclusive growth path, the structural changes that come with it and the expectations it generates. There are external challenges also arising from the fact that the global economic environment is much less favorable than it was at the start of the Eleventh Plan. These challenges call for renewed efforts on multiple fronts, learning from the experience gained, and keeping in mind global developments.

Ans 7: There is wide agreement about the major goals of economic policy: high employment, stable prices, and rapid growth. There is less agreement that these goals are mutually compatible or, among those who regard them as incompatible, about the terms at which they can and should be substituted for one another. There is least agreement about the role that various instruments of policy can and should play in achieving the several goals. What Monetary Policy Can Do-money is only a machine, but it is an extraordinarily efficient machine. Without it, we could not have begun to attain the astounding growth in output and level of living we have experienced in the past two centuries-any more than we could have done so without those other marvelous machines that dot our countryside and enable us, for the most part, simply to do more efficiently what could be done without them at much greater cost in labor.

But money has one feature that these other machines do not share. Because it is so pervasive, when it gets out of order, it throws a monkey wrench into the operation of all the other machines. The Great Contraction is the most dramatic example but not the only one. Every other major contraction in this country has been either produced by monetary disorder or greatly exacerbated by monetary disorder. Every major inflation has been produced by monetary expansion-mostly to meet the overriding demands of war which have forced the creation of money to supplement explicit taxation.

Ans 8: This famous observation made by Mahatma Gandhi many years ago, still holds true. The rural population comprises the core of Indian society and also represents the real India. Therefore, it is our responsibility to build a system that delivers basic social infrastructure to the rural people in an effective manner. In order to ensure that the fruits of India's progress are shared by all sections of the society, the government has identified several elements of social and economic infrastructure, critical to the quality of life in rural areas.

The Indian rural market has a huge demand base and offers great opportunities to marketers. Two-thirds of Indian people as well prospect consumers live in rural areas , approx 30% GNP generated from rural business . If we cast a glance over demographically at global perspective that Indian rural population contribute approx 12.2% of total global population which is a huge and unorganized market.

In recent years, rural markets have acquired significance, as the overall growth of the economy has resulted into substantial increase in the purchasing power of the rural communities. On account of green revolution, the rural areas are consuming a large quantity of industrial and urban manufactured products. In this context, a special marketing strategy, namely, rural marketing has emerged. But often, rural marketing is confused with agricultural marketing – the latter denotes marketing of produce of the rural areas to the urban consumers or industrial consumers, whereas rural marketing involves delivering manufactured or processed inputs or services to rural producers or consumers.

Ans 9: Social and cultural environment refers to the influence exercised by certain social factors which are "beyond the company's gate". All such factors comes under one head that is culture.

Culture : In its narrow sense culture is understood to refer to such activities as dance, drama, music and festivals. In its true sense culture is understood as that complex whole which includes knowledge, belief, art, morals, law, customs and other capabilities and habits acquired by individual as a member of a society. The culture has two main characteristics :

i) Shared value : 30 :

ii) Passage of time

Culture of a society is shared by its members. Cultural ethos are passed from one generation to other generation. It is not confined to one particular period of time. The interface between business and culture can be summarized as follows :

a) Culture creates people.

b) Culture determines goods and services.

c) It defines people's attitude to business and to work.

d) Explains the spirit of collectivism and individualism.

e) Defines whether people are Ambitions or complacent.

f) Education

g) Family

h) Authority

i) Marriage

j) Time Dimension

k) Cultural Resources.

All the above said factors influence the business in one or other way. Hence it is important to understand all these factors for a successful business.