

Ist Internal, 2019
MBA- 1st SEM.
Business Environment
Set A
Max. Marks 30
Time 1.30 Hrs.

Instructions:

1. The question paper is divided in two sections.
2. There are sections A & B. Section A contains three questions out of which the candidate is required to attempt any two questions. Section B contains a short case study question which is compulsory for all.

Section A

Subjective Questions – Any 2 (10 marks each)

1. Environmental scanning should provide inputs for strategic decision making Elaborate [10]
2. Discuss the impact of globalization and liberalization on telecom and education sector in India[10]
3. Do you think that present economic environment is favorable to business? Elaborate with example [10]

Case - study

The Public sector Indian Oil Corporation (IOC), the major oil refining and marketing company which was also the canalizing agency for oil imports and the only Indian company in the fortune 500, in terms of sales planned to make a foray into the foreign market by acquiring a substantial stake in the balal oil field in Iran of the premier oil. The project was estimated to have recoverable oil reserve of about 11 million tones and IOC was supposed to get nearly four million tones. When IOC started talking to the Iranian company for the acquisition in October 1998, Oil prices were rock bottom (\$11 per barrel) and most refining companies were closing shop due to falling margins. Indeed a number of good oil properties in the Middle East were up for sale. Using this opportunity several developing countries made a killing by acquiring oil equities abroad. IOC needed governments permission to invest abroad. Application by Indian

company for investing abroad is to be scrutinized by a special committee represented by the Reserve Bank of India and the finance and commerce ministries. By the time the government gave the clearance for the acquisition in December 1999 (i.e. more than a year after the application was made), the prices had bounced back to \$24 per barrel. And the EIF of France had virtually taken away the deal from IOC's nose by acquiring the premier Oil.

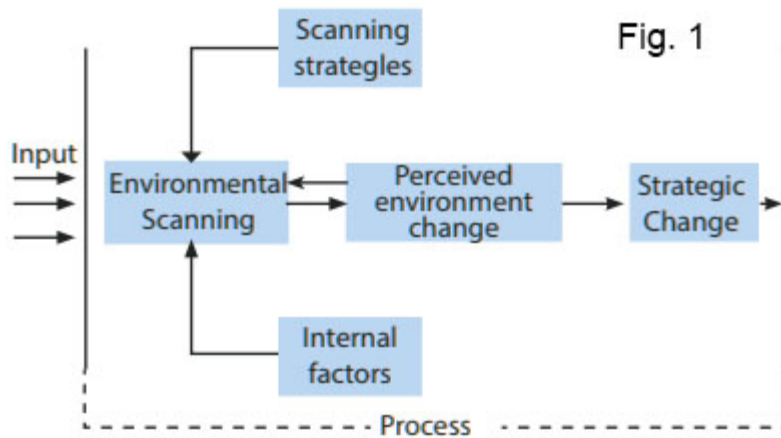
The RBI which gave IOC the approval for \$15 Million investment, took more than a year for clearing the deal because the structure for such investment was not in place, it was reported.

- (i) Discuss internal, domestic and global environments of business revealed by this case.
- (ii) Discuss whether it is the domestic or global environment that hinders the globalization of Indian business.

Solutions

1. Environmental Scanning

The purpose of the scan is the identification of opportunities and threats affecting the business for making strategic business decisions. As a part of the environmental scanning process, the organization collects information regarding its environment and analyzes it to forecast the impact of changes in the environment. This eventually helps the management team to make informed decisions.



As seen from the figure above, environmental scanning should primarily identify opportunities and threats in the organization's environment. Once these are identified, the organization can create a strategy which helps in maximizing the opportunities and minimizing the threats. Before looking at the important factors for environmental scanning, let's take a quick peek at the components of an organization's environment.

Components of a Business Environment

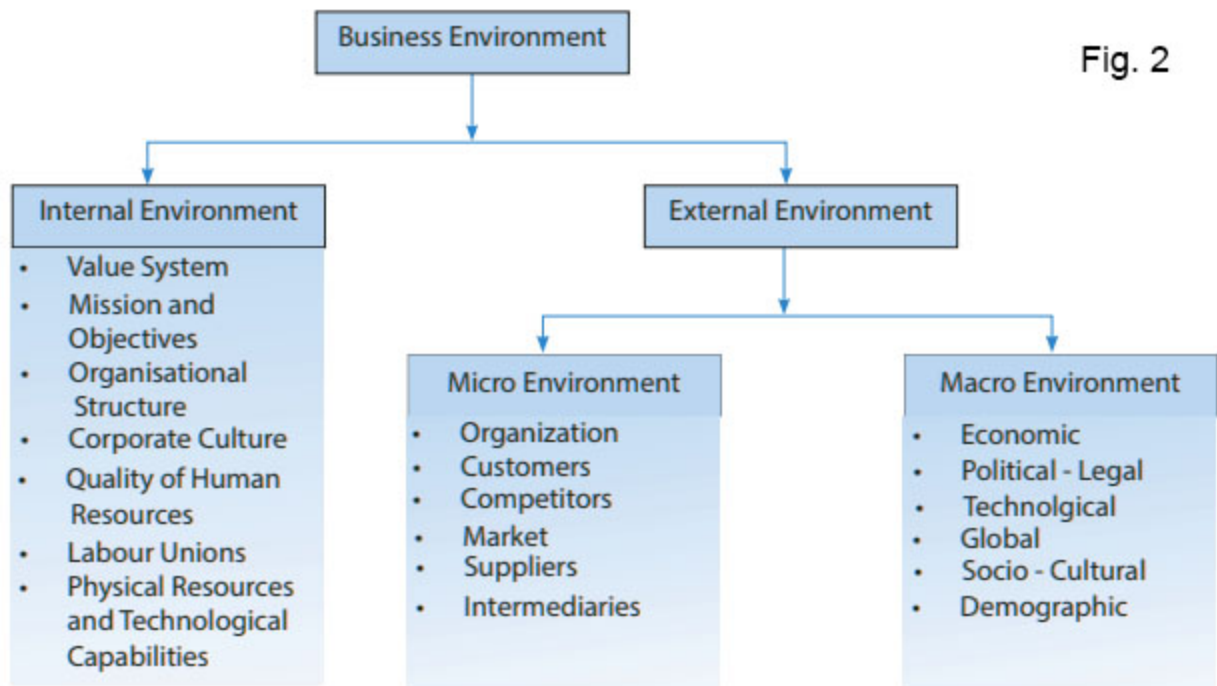


Fig. 2

As you can see above, the internal environment of an organization consists of various elements like the value system, mission/objectives of the organization, structure, culture, quality of employees, labor unions, technological capabilities, etc. These elements lie within the organization and any changes to them can affect the overall success of the business.

On the other hand, an organization cannot operate in a vacuum. Also, there are many factors outside the walls of an organization which affects the functions of the business. These factors constitute the external environment of an organization.

The internal environment offers strengths and weaknesses to business while the external environment brings opportunities and threats. The four influencing environmental factors known as SWOT Analysis are:

1. **Strength** – an inherent capacity of an organization which helps it gain a strategic advantage over its competitors.
2. **Weakness** – an inherent constraint or limitation which creates a strategic disadvantage for a business.
3. **Opportunity** – a favorable condition in the organization's environment enabling it to strengthen its position.
4. **Threat** – an unfavorable condition in the organization's environment causing damage to the organization.

Important Factors for Environmental Scanning

Before scanning the environment, an organization must take the following actors into consideration:

- **Events** – These are specific occurrences which take place in different environmental sectors of a business. These are important for the functioning and/or success of the business. Events can occur either in the internal or the external environment. Organizations can observe and track them.
- **Trends** – As the name suggests, trends are general courses of action or tendencies along which the events occur. They are groups of similar or related events which tend to move in a specific direction. Further, trends can be positive or negative. By observing trends, an organization can identify any change in the strength or frequency of the events suggesting a change in the respective area.
- **Issues** – In wake of the events and trends, some concerns can arise. These are Issues. Organizations try to identify emerging issues so that they can take corrective measures to nip them in the bud. However, identifying emerging issues is a difficult task. Usually, emerging issues start with a shift in values or change in which the concern is viewed.
- **Expectations** – Some interested groups have demands based on their concern for issues. These demands are Expectations.

Events are occurrences which takes place in different environmental sectors of a business. Sometimes these events follow a pattern and tend to move in a specific direction. By analyzing these patterns, the organization can identify trends. Further, there are times when events and trends cause concerns or issues. Also, the interested groups expect the organization to take care of the issues. Hence, in environmental scanning, the organization must ensure that all these aspects are covered.

2. **The Liberalization of Indian Telecommunication Sector** in the early 1990s was the effect of economic reforms promulgated by the Government of India to align its economy with the world economy. Further the economic renaissance of India catalyzed the need for the opening of Indian telecommunication industry. Since independence the number of basic telecommunication services network has expanded from about 84 thousand connections to around 385.95 lakh connections as on March 31 2002. The basic service network represents the majority of the telephone subscription, which accounts for around 86% of the total telecommunication network in India. Post 1990s, the Government of India did away with its old monopoly-market concept and shifted to open-market policy regime.

The Indian telecommunication industry's contribution towards the overall health of Indian economy is substantially high in the recent years. The history of the Liberalization of Indian Telecommunication Sector suggests that although, this industry has matured tremendously over the last fifteen years but huge scope of growth still waits to be explored. The urban India is well connected with basic telephone services but the semi-rural area needs immediate attention. The rural- India today is the most neglected in the area of telecommunication connectivity. Huge scope of growth is lying still untapped in the area of rural telecommunication networking, especially in the area of basic telephony and Internet.

The Government of India is now more focused on faster connectivity of rural-telephony in rural India and drafted its latest telecommunication policy to attract investments for the growth of Indian telecommunication industry. The latest telecommunication policy of India offers host of fiscal incentives and tax rebates to attract investors, both domestic and foreign investors. The era

of post Liberalization of Indian Telecommunication Sector, witnessed formation of 'Department of Telecommunication' (DOT) and the 'Telecom Regulatory Authority of India' (TRAI). These two independent bodies operate in sync and under the guardianship of the Ministry of Telecommunication Government of India. These independent bodies have earned good reputation for transparency and competence of governance.

The main service providers in the Indian telecommunication sector are as follows -

- State owned telecommunication companies like - VSNL, BSNL and MTNL
- Private Indian telecommunication companies like - Tata Teleservices and Reliance Infocomm
- Foreign telecommunication companies like - Idea Cellular, BPL Mobile, Spice Communications, Hutchison - Essar, Bharti Tele-Ventures, Escotel, etc

The main objectives of the telecommunication industry after the Liberalization of Indian Telecommunication Sector are as follows -

- Creating world class telecommunication infrastructure to meet the requirements of growing Indian industries
- Easy and affordable access to basic telecommunication services across India
- Establishing a modern and efficient telecommunication infrastructure to meet the requirements of modern industrial nation
- Modernization of the Indian telecommunication industry
- Provisions for entry of private players into the Indian telecommunication industry
- Provide an equal opportunity for all the telecommunication service providers operating in India
- Strengthening R&D in telecommunication sector
- Efficient and transparent spectrum management
- Enabling efficient protection of the defense and security systems of the country
- Facilitating the Indian telecommunication companies to be at par with other global players
- Facilitate world class services at affordable prices
- Institutionalize the Department Of Telecommunication, to help them function as an independent corporate bodies
- To make telephone available on demand
- Facilitate reliable media to all telephone exchanges
- Facilitate high-speed data and multimedia connections

- Facilitation of world class service to all uncovered and rural areas of India

Status of the telecommunication sector post Liberalization of Indian Telecommunication Sector (as on 31.03.2002) are as follows -

- Total number of telephone exchanges - 35023
- Total number of rural telephone exchanges - 26,953
- Total number of fixed telephone subscribers - 385.95 lakh
- Total number of cellular mobile phone subscribers - 64.31 lakh
- All India tele-density - 4.4
- Total number of village PCOs - 4.68 lakh
- Total number of Internet subscribers - 38 lakh

Liberalization: In the last decade with liberalization policies being implemented, the field of education too witnessed the entry of private sector on a large scale and in order to support the initiatives of the private sector in the field of education, many educational institutions under private management are aided by the government. Thus private participation in education has been encouraged. Changing Social Needs: We know that our economy presently demands educated and skilled manpower. The numbers graduating from government institutions is nowhere near the numbers required. Also with globalization, economies of the world are getting interlinked and hence, people with professional education are in demand abroad too. Such growing need of manpower could not be met by the public sector alone and this led to the need for private participation. Quality of Education: In spite of the government pouring in resources for the cause of universalization of elementary education, it is a well known fact that the quality of education or the perception of it, offered by government schools does not match that of private schools. Hence, the craze for private schools and the consequent increase in their number. It is indeed an ironical situation as huge financial investment is being made in government schools through the SSA programme while parents prefer to pay for private schooling where the learning has been found to be of better quality. In several states a sizeable portion of urban children are now in private schools. As per Pratham and certain other sources, private elementary schools ensure greater proficiency in the basic skills (Patnaik, 2006). Investment in Education Leading to High Returns: From a healthy growth of private institutions, mushrooming of certain types of private institutions is being witnessed. Earlier the motive to provide education was only philanthropic but now it is linked to

profiteering. It is well known that investments made in educational institutions are rewarded with high returns. This is true not only in India, but all over the world and business in education involves trillions of dollars, For instance, it is a common knowledge that teacher-training institutions are being established in huge numbers by private players. Now it is near about 10,000 all over the country. Private schools are being opened by the rich and affluent to multiply their income. The sizeable student population in a population of over a billion people makes the market for education very big and lucrative. This is leading to a steady inflow of entrepreneurs providing educational services even from across jurisdictional boundaries.

9.4.4 Concerns Regarding Privatization

We have been discussing so far the need for the participation of the private sector in the field of education. There are however, certain concerns regarding the rapid growth

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of educational institutions under private management, which in some cases are witnessing a mushroom growth. Recently numerous teacher education colleges, some of which operated even from single room premises, some State were shut down following judicial interventions. This is just one incident that reflects the sordid state of affairs in some areas. Let us now discuss some of the major concerns.

Under Representation of the Weaker Sections

Expansion of educational facilities has to be holistic and should cover wider segments of the population. There are allegations that growing educational opportunities through the private sector are not quite inclusive. The marginalized sections still struggle for an entry into these institutions. Women's participation is still below fifty per cent at all stages of education and in institutions offering professional opportunities through private participation. When private institutions exclude the meritorious but poor, education once again becomes a privilege enjoyed by the elites.

Quality of Education

Although the private sector is often credited for ensuring quality, allegations abound as to the quality of education provided by many of them. While, it is generally held that private schools offer quality education, this cannot be taken as a general rule.

Commercialization of Education

It is a well known fact that rich farmers, traders, contractors and other moneyed people today prefer to invest in the field of professional education because of the promises of heavy returns. In many of these institutions teachers are compensated inadequately, hired and fired at will, those without proper qualifications are recruited and money is extorted from the students on various pretexts. Education is thus old

and the students become the customers. In the recent past, provision for providing teacher education through the correspondence mode was especially misused and the process was akin to selling degrees. These malpractices take a heavy toll on the quality. There is presently a ban on the charging capitation fees by private institutions and profiteering of any sort is also unacceptable. The generation of surplus funds by these institutions is allowed but on the condition that it would be rolled back i.e. applied for the upgradation and development of the organization. Many private educational institutions charge hefty fees while students do not get the full value for their money. This is because they compromise on infrastructure and faculty and may devise commercially profitable procedures such as mass admission without ensuring the requisite facilities/services for imparting sound education (Anand, 1997). Such educational institutions are thus mainly for minting money. The private institutions today outnumber the government institutions in many areas. Therefore lowering of standards by these institutions will adversely affect the concerned area.

It is quite natural that the expectation from the private sector is more. 9.4.5 Public Private Partnership (PPP) Model of Education As you are aware about Public Private Partnership (PPP) has become a slogan in new development strategies, particularly over the last couple of decades. It is projected as an innovative idea to tap private resources and to encourage the active participation of the private sector in national development. It is more forcefully 53 advocated when public resources are projected to be inadequate to meet the needs. PPP is not limited in public sector companies rather they are being extended to human development sectors such as education and health. In the case of education, PPP has been proposed as an important strategy in the Eleventh Five Year Plan. Among many things, the Eleventh Plan has proposed the setting up of 6,000 new model schools in secondary education, affiliated to the Central Board of Secondary Education. Of these, 2,500 are to be under the PPP model. The intention is to set up these schools in the backward regions and remote areas where good schooling facilities do not exist, so that quality education is accessible in the backward regions as well. According to the model finalised by the Planning Commission in consultation with the private sector, these schools will be set up by 2014 and will have the capacity to educate 65 lakh students, of whom 25 lakh will be from the deprived sections. Each school will have about 2,500 students, 1,000 of whom will be from deprived sections and charged a token fee. Fifty per cent of the 1,000 students will be from the Scheduled

Castes, the Scheduled Tribes and the Other Backward Classes. They will be required to pay a monthly fee of Rs.25 each. The rest of the children, who will be from other deprived sections — non-income tax paying families — will be required to pay a fee of Rs.50 a month. The remaining costs of these students, estimated to be Rs.1,000 to Rs.1,200 a head per month, will be reimbursed by the Union government to the schools. It is estimated that the government will have to pay Rs.10,500 crore until 2017. The amount is likely to go up with escalating prices, in general, and increasing costs of education, in particular.

3. **BUSINESS AND ITS ENVIRONMENT NATURE OF BUSINESS** Business may be understood as the organized efforts of enterprise 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. But, all businesses share the same purpose: to earn profits. The purpose of business goes beyond earning profit. There are:
 - 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
 - Contributing to the economic growth of the country.Hence, it is understood that the role of business is crucial. Society cannot do without business. It needs no emphasis that business needs society as much. **BUSINESS TODAY** Modern business is dynamic. If there is any single word that can best describe today's business, it is change. This change makes the companies spend substantially on Research and development (R & D) to survive in the market. Mass production and mass marketing are the norms followed by business enterprises. The number of companies with an annual turnover of Rs.100 crore each was only three in 1969-70. The figure has gone up by hundreds these days. Today's business is characterized by diversification, which may be:
 - 2 Concentric Diversification - It refers to the process of adding new, but relates products or services.
 - Horizontal Diversification - Adding new, unrelated products or services for present customers is called horizontal Diversification.
 - Conglomerate Diversification - It refers to adding new and unrelated products or services.Going international is yet another trend followed by modern business houses. Business houses are exposed to global competition, which argues well for consumers. Also occupying a major role is science in the global economic scenario. **BUSINESS IN 21ST CENTURY** Large organizations, with a large workforce will not exist. They will be 'Mini' organizations. Business during the 21st century will be knowledge-based, tomorrow's manager need not spend his time on file pushing and paper-shuffling. Information technology will take care of

most of that work. Organizations will become flat. Linear relationship between the boss and manager and authority flowing downwards and obedience upward will disappear. Employees will have no definite jobs. Most of the jobs will last for two to five years. Remuneration will depend on one's contribution to organization.

BUSINESS GOALS Profit - Making profit is the primary goal of any business enterprise. Growth - Business should grow in all directions over a period of time. Power - Business houses have vast resources at its command. These resources confer enormous economic and political power. 3 Employee satisfaction and development - Business is people. Caring for employee satisfaction and providing for their development has been one of the objectives of enlightened business enterprises. Quality Products and Services - Persistent quality of products earns brand loyalty, a vital ingredient of success. Market Leadership - To earn a niche for oneself in the market, innovation is the key factor. Challenging - Business offers vast scope and poses formidable challenges. Joy of creation - It is through business strategies new ideas and innovations are given a shape and are converted into useful products and services. Service to society - Business is a part of society and has several obligations towards it.

BUSINESS ENVIRONMENT Environment refers to all external forces, which have a bearing on the functioning of business. Environment factors "are largely if not totally, external and beyond the control of individual industrial enterprises and their managements. The business environment poses threats to a firm or offers immense opportunities for potential market exploitation.

TYPES OF ENVIRONMENT Environment includes such factors as socio-economic, technological, supplier, competitor and the government. There are two more factors, which exercise considerable influence on business. They are physical or natural environment and global environment. **Technological Environment** Technology is understood as the systematic application of scientific or other organized knowledge to practical tasks. Technology changes fast and to keep pace with it, businessmen should be ever alert to adopt changed technology in their businesses. **Economic Environment** There is close relationship between business and its economic environment. Business obtains all its needed inputs from the economic environment and it absorbs the output of business units. **Political Environment** It refers to the influence exerted by the three political institutions viz., legislature executive and the judiciary

in shaping, directing, developing and controlling business activities. A stable and dynamic political environment is indispensable for business growth. Natural Environment Business, an economic pursuit of man, continues to be dictated by nature. To what extent business depends on nature and what is the relationship between the two constitutes an interesting study. Global or international Environment Thanks to liberalization, Indian companies are forced to view business issues from a global perspective. Business responses and managerial practices must be fine-tuned to survive in the global environment. 5 Social and culture Environment It refers to people's attitude to work and wealth; role of family, marriage, religion and education; ethical issues and social responsiveness of business.

ENVIRONMENT – BUSINESS RELATIONS Business is the product of the technological, political-legal, economic, social – cultural, global and natural factors amidst which it functions. Three features are common to this web of relationship between business and its environment.

- There is symbolic relationship between business and its environment and among the environmental factors. In other words, business is influenced by its environment and in turn, to certain degree, it will influence the external forces. Similarly, political-legal environment influences economic environment and vice versa. The same relationship between other environment factors too.
- These environmental forces are dynamic. They keep on changing as years roll by, so does business.
- The third feature is that a particular business firm, by itself, may not be in a position to change its environment. But along with other firms, business will be in a position to mould the environment in its favor.

IMPORTANCE OF ENVIRONMENTAL STUDY The benefits of environmental study are as follows;

- Development of broad strategies and long-term policies of the firm.
- Development of action plans to deal with technological advancements.
- To foresee the impact of socio-economic changes at the national and international levels on the firm's stability.
- Analysis of competitor's strategies and formulation of effective countermeasures.

- To keep oneself dynamic.

6 ENVIRONMENTAL ANALYSIS PROCESS The analysis consists of four sequential steps: Scanning It involves general surveillance of all environmental factors and their interactions in order to:

- Identify early signals of possible environmental change
- Detect environmental change already underway

Monitoring It involves tracking the environmental trends, sequences of events, or streams of activities. It frequently involves following signals or indicators unearthed during environmental scanning.

Forecasting Strategic decision-making requires a future orientation. Naturally, forecasting is an essential element in environmental analysis. Forecasting is concerned with developing plausible projections of the direction, scope, and intensity of environmental change.

Assessment In assessment, the frame of reference moves from understanding the environment- the focus of scanning, monitoring and forecasting – to identify what the understanding means for the organization. Assessment, tries to answer questions such as what are the key issues presented by the environment, and what are the implications of such issues for the organization.