

TUTOR MARKED ASSIGNMENT

Course Code	:	MCO – 04
Course Title	:	Business Environment
Assignment Code	:	MCO - 04 /TMA/2017-18
Coverage	:	All Blocks

Maximum Marks: 100

Attempt all the questions.

1. How does socio-cultural environment affects business decisions-making? Give a brief sketch of the nature of socio-cultural environment prevailing in India. (15)

2. “The scope and coverage of labour legislation are very wide and overlapping”. Elucidate the statement with a brief overview of labour legislation in India. (15)

3. Distinguish between the following;
(a) Capital Market and Money Market.
(b) Speculative Transaction and Investment Transaction
(c) Budla System and Equity Derivatives
(d) Commercial Bill and Treading Bill (2.5x4 =10)

4. Comment in the following statements:
(a) The environment within which a business firm operates is highly dynamic and complex
(b) Environment and Management influence each other
(c) Every company encounters certain publics in its environment
(d) Marketing intermediaries constitute an integral part of macro environment. (5x4=20)

5. “Economic planning has assumed different forms in different countries. Hence there is hardly any agreement among economists on the concept and nature of economic planning”. Elaborate on this statement. (20)

6. (a) State the causes of disequilibrium in the balance of payments. Suggest measures for establishing equilibrium in the balance of payments. (4+6)

(b) Explain the concept of globalization as a national policy with particular reference to the policy initiative taken by government of India since 1991. (10)

ASSIGNMENT SOLUTIONS GUIDE (2017-2018)

M.C.O.-4

Business Environment

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Attempt all the questions.

Q. 1. How does socio-cultural environment affects business decisions-making? Give a brief sketch of the nature of socio-cultural environment prevailing in India.

Ans. The socio-cultural factor of any country plays a significant role in defining the business strategies. Basically, the culture of a region is a blend of faith, beliefs, attitude, ideals and perceptions of an individual that directly and indirectly affect the social surroundings. Culture of a particular country or a region also defines the different social equations within the peripheries of that region. It makes a direct effect on social institutions, systems, social groups, and social values and also on the attitude and perception of people.

Besides, it helps in enumerating the qualitative and quantitative aspects of the demographic environment present in India.

The socio-cultural factor acts as a macro environment factor in the running of a business organisation. There are different factors of culture which are directly related to the business activities.

These diverse issues help in learning about the critical elements surrounding the socio-cultural environment, and also in knowing the quantitative and qualitative aspects of demographic environment and the existing dualism kind of scenario in the Indian economy owing to the merging disparities among the incomes of the people. Besides, the coming up of consumer protection environment, it also creates a new kind of environment where the consumer is aware of the value and benefits of the products.

Owing to the changing factors and beliefs from one country to other, from one region to the other region, there is a constant change in the socio-cultural environment. Therefore, no matter whether it is the same country or the different country, there is a constant change in the socio-cultural environment being created. In a country, the culture would be different from place to place while if there are different countries, the culture is bound to be different.

There it becomes a must to study the diversity of these countries and regions if one really wants to perform his business to attain success. The psyche of the customers needs to be understood properly before the product is launched in a particular country.

This is the approach being followed by each and every country before introducing their products in the other region or the other country. Be it McDonalds or KFC, all have made amendments in their products to come up according to the expectations of the Indian consumers and therefore, are successful in the Indian economy.

The significance of studying the socio-cultural factor of a particular region could be gauged from the fact that the diverse business strategies are formed only and only after studying the socio-cultural environment.

Thus, any organisation coming up with their introductory products should study the socio-cultural factors, the demographic factors and consumer behaviour first to make their product launch a success. There should be no carelessness in studying these factors or else the product launch could well be a big failure

The different dish washers company made this blunder and launched its product in the Indian market in the early 1990s. However, the Indian market was not at all prepared for this kind of product. Therefore, despite making endless efforts, the product launch was a failure, as it failed to peep into the socio-cultural factors of the Indian market and did not even study the basic character of the Indian market.

The examples of LG and Samsung and Hyundai could be taken in this regard who have now become the Chaebols of the economy. They made an entry in India only after studying various parameters and therefore, emerged as successful entities.

Q. 2. “The scope and coverage of labour legislation are very wide and overlapping”. Elucidate the statement with a brief overview of labour legislation in India.

Ans. It is true that the scope and coverage of labour legislation are very wide and overlapping.

The first act that was the Factories Act, was introduced in 1881 that dealt with the issue of employment of children. Later on, it underwent amendment in 1891, 1911 and 1934 with the addition of more comprehensive clauses. Further, in 1948, some more changes were introduced. With respect to workers interest, different laws were introduced that included the laws relating to wages and bonus, laws related to social security and laws relating to trade unions and industrial relations.

Laws relating to Factories and specific industries: Under the Factories Act, 1948, all the employers need to pay their employees for their health, safety and welfare. It covers some vital issues, such as the working hours, leave with pay and also the employment of young persons. To take care of the peculiar needs, there are Mines Act, 1952. Similarly, there is a plantation Labours Act 1961 that promises availability of drinking water, medical facilities and all other basic requirements in an organization or the workers. Besides, there are Indian Railways Act, 1931, Indian Merchant Shipping Act, 1973, Motor Vehicles Act, 1939, Motor Transport Workers Act, 1961 and the contract Labour and Regulation and Abolition Act, 1970.

Legislation related to wages and bonuses: A Minimum Wages Act was introduced where the issue of fixing the minimum wages lies with central and state governments. Besides, there exists a Payment of Wages Act that promises workers welfare by ensuring timely payment. It also makes sure that there are no deductions made from the employee’s salary. Besides, there is a payment of Bonus Act promising payment of minimum bonus of 8.33 % and the maximum limit upto 20 pc of the total remuneration. The Equal Remuneration Act introduced the same series ensures that the workers get their equal remuneration for their equal work irrespective of any differentiation on the basis of caste, creed or sex.

The social security legislation: The Workers’ Compensation Act comes as a part of the social security legislation. He promises the disbursement of compensation by the employer to the employee, in case he gets a personal injury out of accidents or from occupational diseases.

Further, there also exists the Employees State Insurance Act which takes care of the payment of compensation if there are conditions such as the employees’ sickness, maternity and disablement. There also exists the Employees Provident Fund and Miscellaneous Provisions Act that has three schemes framed by central government. They include the Employees’ Provident Fund scheme, Employee’s Pension scheme and Employees’ Deposit Linked Insurance Scheme. In all these schemes, there is a need to make a total contribution by both the employee and the employer.

Further, those who are the members of Provident Funds are also covered by the pension scheme and the insurance scheme. There also exists a Payment of the Gratuity Act that promises the gratuity payment. It comes as a significant retirement benefit helping the employees in their old age.

Legislation wrt to industrial relations: These legislatures ensure that there exist some amicable relations between the employee and the employers. It also makes sure that there are no conflicts between the labour and the employer on any key issue. There also exist the trade union acts that ensure that all the trade unions are registered. Further, there is an industrial disputes act that defines the provisions for constituting the work committees.

The Industrial Employment Act aims at defining the conditions of industrial workers’ employment to avoid any unwanted dispute.

Workers participation in management: Under this process, the workers are neck-deep involved in the decision making process of an organisation to enhance its productivity, to increase the performance of an enterprise and also to increase the job satisfaction. He can also increase the efficiency and improve the industrial relations. There are several schemes being floated to ensure a healthy environment. These include the formation of works

committees, the joint management councils, the workers’ representation on board of directors etc.

Q. 3. Distinguish between the following:

(a) Capital Market and Money Market.

Ans. Money Market: Money market plays a key role in the modern economy. It helps in expansion of trade and industrial growth by helping the business units in meeting their capital requirements without any difficulty. There is bill of exchange that helps in financing in domestic and foreign trade. Even the working efficiency of the banks depend on the money market. If there is no call loan market, the banks would find it tough to maintain the cash reserve ratio for meeting the demands of their depositors that can easily erode the capacities of banks to lend the amount.

Capital market: When the organization and the mechanism raise long-term funds by issuing securities, such as shares, debentures, bonds etc, they are referred to as the capital market. It is a system where the public take up long term securities. It also helps in mobilizing savings of the public.

Difference between Money Market and Capital Market

1. The short-term funds constitute the money market while the long-term markets constitute the long-term funds.
2. Money market deals with securities, while capital market deals with shares, debentures etc.
3. The money market participants are commercial banks, non-banking finance companies etc. while the participants in capital markets are stock brokers underwriters, mutual funds etc.
4. RBI regulates the money market while the central government and SEBI regulate the capital market.
5. Money market has call money market, acceptance market and bill market as its components. The capital market components are primary and secondary markets.

(b) Speculative Transaction and Investment Transaction.

Ans. Speculative Transaction and Investment Transaction: The speculative transaction generally is based on high risk. It is generally done on a limited analysis as the name itself suggests.

The Investment transaction is based on thorough analysis. It promises safety of principal and a satisfactory return.

(c) Budla System and Equity Derivatives

Ans. Budla system and equity derivatives: Budla system is known as the settlement system which has been specified to carry forward transactions from one settlement to another.

It consists of an equity derivate which is symbolizing the products or instruments whose values depend on the underlying assets' values. These equity derivatives could be the stock index, a foreign company, a commodity or an individual stock that is also an equity share. It can also exist in underlying asset forms equity share which is called as equity derivative.

(d) Commercial Bill and Trading Bill

Ans. The commercial bills are issued by the seller (drawer) on the buyer (drawee) for the value of goods delivered by him. These bills are of 30 days, 60 days or 90 days maturity. If the seller is in need of funds, he may draw a bill and send it to the buyer for seller who is in need of funds, he may draw a bill and send it to the buyer for acceptance. The buyer accepts the bill and promises to make payment on the due date. He may also approach his bank to accept the bill. The bank charges a commission for the acceptance of the bill and promises to make the payment if the buyer defaults. Once this process is accomplished, the seller can sell it in the market. This way a commercial bill becomes a marketable investment. Usually, the seller will go to the bank for discounting the bill. The bank will pay him after deducting the interest for the remaining period of the bill and service charges from the face value of the bill. The interest rate is called the discount rate on the bills.

Trade bill on the other hand, bill of exchange issued and/or endorsed (accepted) by non-bank entities and which, therefore, can be discounted only at the rates higher than the rate for bank bills.

Q. 4. Comment in the following statements:

(a) The environment within which a business firm operates is highly dynamic and complex.

Ans. (a) The environment within which a business firm operates is highly dynamic and complex:

Change is a constant phenomenon, nothing remains forever in the world. The same rule applies in business as well. The factors generating growth, and profit keep on changing, thereby marking a different kind of impact on business. The social, economic and technical advances have forced many products to change their definition owing to the

changing dimensions. Owing to such kind of changes appearing in the business environment every now and then, the

organisation keeps on changing its policies while keeping a track of major changes. It formulates the strategies that can help business face fresh challenges. Therefore, it is truly said that the environment within which a business firm operates is highly dynamic.

Besides, there are multiple factors driving the growth of a business organisation. There are diverse factors, events, influences and conditions arising from different sources that keep on interacting with each other to create new business equations. Looking at these emerging changes resulting from new influences, it is rightly said that the environment within which the business firm operates is complex as well.

(b) Environment and Management influence each other.

Ans. Environment and management influence each other: It is said that the environment and management influence each other. In other words, it can be said that the environment and management are directly related to each other.

As the environment keeps on changing with changing time and factors, there is a scope for the management to bring in new business strategies to drive their organisation towards growth. Similarly, on looking at the kind of policies being followed by the management, the new equations can emerge in the business environment paving way for new opportunities. There can also be the new threats according to which solutions could be found to face those challenges. The different management policies can bring a change in the micro and macro environment by introducing new strategies that can trigger the demand of a product and services and also help in increasing its profitability.

(c) Every company encounters certain publics in its environment.

Ans. Every company encounters certain publics in its environment: Publics include the journalists, environmentalists and lobbyists in its environment. Sometimes, these publics act as a threat and at other time, this public opens up an opportunity in a given business environment. According to management guru Philip Kotler: Publics can be defined as a group that has an actual or potential interest in or impact on a company's ability to achieve its objectives.

These publics play a crucial role in its environment. For example, an NGO brought down the sale of Pepsi on account of finding traces of pesticides in the bottle. Similarly, the discovery of worms in Cadburys also reduced its sale. However, on the other side, a good coverage in good spirit has also helped in making the brand image of a company many times thereby creating good business opportunities. Therefore, smart business unit would always be seen working in harmony with the public to gain maximum mileage from it.

(d) Marketing intermediaries constitute an integral part of macro environment.

Ans. Marketing Intermediaries: These are the channels that help in taking the final products to the final customers. Most of the companies do not have a direct network and therefore, find it difficult to find their final buyers. Therefore, they depute the marketing intermediaries. These intermediaries help in promoting, selling and distributing its goods to the final buyers.

Demographic Environment: The size and composition of population form the demographic feature. The population of a country plays a significant role in the business, as it defines the strength of a domestic market. The other demographic factors are age, life expectancy, size and growth rate of population, income, education etc. These factors can help the organisation in formulating their own distinctive strategies.

Natural Environment: The availability of raw materials and the ecology of a region define the natural environment. For example, the leather industry can be set up where there is an easy availability of raw materials. The other criteria of ecological balance also needs to be kept in mind.

Q. 5. "Economic planning has assumed different forms in different countries. Hence there is hardly any agreement among economists on the concept and nature of economic planning". Elaborate on this statement.

Ans. "Economic planning has assumed different forms in different countries. Hence there is hardly any agreement among economists on the concept and nature of economic planning."

Eventually, the economic planning goes for four different senses. The first condition clearly denies the situation that each production unit is engaged in production as per the plan assigned to it by central authority.

However, in this case, it is the planning authority which decides that which commodity can be produced and which inputs could be used. This kind of economy is called collective planning.

The other kind of economy has targets both in public and private sector. This is called as practical planning which mostly remains predominant in capitalists' economies. The third kind of economic system could be described as the system where some macro economic targets are set and the allocation of resources is done on its basis. India also follows this kind of approach.

In the fourth kind of system, there is a government which lays down certain targets for private enterprises. It also develops a comprehensive system of physical and financial controls for making them realize the set targets.

The planning process in India has undergone significant changes with increasing liberalization. This statement really holds weight. However, with the introduction of reforms in Indian country, the role of public sector has been diluted. Further, the economic controls have also been withdrawn. Eventually, the country is seen following the indicative planning method:

1. Indicative economic planning: There is a full preservation of market in the indicative planning system. After the post liberalization era, the regulatory system has been dissolved. Even the controls on fiscal and monetary controls seem to have been dissolved. However, despite these measures, the state cannot limit the scope of planning. This state can go to any extent for accomplishing the objectives of planning and can restrict the free play of the market force. Indicative economic planning saves the consumers sovereignty.

2. Physical planning: A physical planning includes a concrete and thorough working schedule. Following the principles of physical planning introduced in Russia, India adopted a five-year planning for the purpose of making an effective economic planning both in financial and physical terms.

According to the second five year plan, "Physical planning is an attempt to work out the implications of the development effort in terms of factor allocations and product yields to maximize incomes and employment."

For implementing the physical planning, there was a requirement of a reliable investment co-efficient to indicate the amount of investment which was required to raise the output and composition of investment. Even the Indian planners for this system relied heavily on input-output techniques.

3. Social planning: It comes as no doubt that there is a lot of social discrimination in India, in terms of wealth, caste, status etc. Eventually, the Indian planners went for introducing some plans. These were the plans that could help on the overall development of the society, irrespective of the discrimination on the basis of caste, creed etc. There were different employment programmes launched at this piece of time that were Jawahar Rozgar Yojana, the Integrated Rural Development Programme and the Employment Assurance Scheme.

4. Indian plans are comprehensive: Indian plans are comprehensive as they cover everything. However, they remain different when it comes to certain practices being adopted by the west European nations. It also lays macro economic goals and targets that are laid down for different sectors, such as agriculture, power, transport, manufacturing industries etc.

5. Poor data base: An authentic data for making a purposeful planning is a major requirement. The whole planning exercise could crash, if there is inadequate and unreliable data.

Q. 6. (a) State the causes of disequilibrium in the balance of payments. Suggest measures for establishing equilibrium in the balance of payments.

Ans. Sometimes, the balance of payments maintains equilibrium and sometimes, it goes for disequilibrium. When the country is neither drawing international reserves for making excessive payments nor it is accumulating international reserves, we say that the balance of payment is in equilibrium. However, when there are excessive imports and export earnings are also not sufficient, reserve turns towards making deficits. This results in disequilibrium of balance of payments.

The main cause of disequilibrium are:

1. When there are continuous deficits appearing on current account balance.
2. When there is a declining surplus on the invisibles accounts.
3. When there appears the burden on external servicing.
4. When there seems to be dwindling prospects of concessional aids.

There are certain methods that can help in maintaining equilibrium of payments. They are as following:

1. Exchange rate adjustment: This can be done by encouraging exports and discouraging imports to improve the balance of payments. There is a downward adjustment in external value of Indian currency.

2. Fiscal and monetary measures: In this case, the government aims at reducing the fiscal deficit further, the concern is also given to slow down the monetary supply that helps in bringing down the demand of certain imported services.

3. Structural reforms: The main concern of the structural reforms was to increase the competition in Indian industry to accelerate the production and growth activities. Thus, these reforms were introduced in industry area and trade policy. A substantial deregulation factors for trade and industry are introduced, there is adoption of promotion measures and liberalization of foreign investment policies.

(b) Explain the concept of globalization as a national policy with particular reference to the policy initiative taken by government of India since 1991.

Ans. Globalization can be defined as the free movement of products and commodities, trade and services, information and technology and natural and human resources across the border. It symbolizes opening up of Indian economy. In 1991, when the Indian economy opened up and introduced reforms, globalization opened the doors of Indian economy. Eventually, the Indian economy was left open to the global world. The liberalization relaxed the restrictions which were imposed on the international flow of goods, capital, services and technology and gave an outward presentation of the economy. In this globalization era, the companies are now planning each of the management processes, for example, marketing, staging, financing, production and distribution by wearing a global outlook.

Some major global steps are:

1. For all the current account transactions, rupee made convertible at exchange market rate.
2. The importable items increased by introducing them under open general license.
3. The import duties decreased to 20 pc from 110 pc.
4. FDI approved upto 51 pc.
5. Permission granted to the foreign institutions to invest in all securities that were being traded on primary and secondary markets.
6. The overseas corporate bodies and the NRIs allowed for 100 pc investment in equity in high priority scheduled industries.
7. Further, Indian capital market granted permission to access the global capital market via GDR and ADR.