Q.No.1. Define the term Business. Also state the conclusions drawn by Peter F Drucker about Business (RTP N 14) (B) (For student - self study)

1. **MEANING:** Business can be defined in three different ways as given below:
   a) **Entity View:** Any Entity, Company or Corporation, created and managed by people.
   b) **Work View:** State of being busy, i.e. one's regular Occupation or Profession.
   c) **Process View:** Any activity consisting of Purchasing, Processing, Manufacturing, Selling and / or Marketing of products and / or services.

2. **BUSINESS EXISTS FOR PROFITS:**
   a) It is said that a business exists for profits.
   b) Profit, as a surplus of business, accrues to the owners.
   c) People invest in business for getting a return. It is a reward for risk taking.
   d) Profit serves as a motivator for business effort.

3. **PROFIT IS THE MEASURE OF PERFORMANCE:**
   a) Profit is considered as the overall measure of performance of the business enterprise.
   b) It is treated as a yardstick for measuring business efficiency and for evaluating managerial competence.
   c) Other things being equal, the higher the efficiency the greater is the level and volume of profit.
4. **CONCLUSIONS DRAWN BY PETER F DRUCKER ON THE TERM BUSINESS:**
   
a) Business is created and managed by people. There will be a group of people who will take
decisions that will determine whether an organization is going to prosper or decline, whether it
will survive or will eventually perish. This is true of every business.

b) Business cannot be explained in terms of profit. The economic criterion of maximising profits
has little relevance in the present times. Profit maximization has been modified to include
development of wealth and several non-financial factors such as goodwill, societal factors,
relations and so on.

**SIMILAR QUESTIONS:**
1. What do you understand by the term business? Are business done for profit alone.
   A. Refer above answer + write introduction as given in the answer of 2nd question. (RTP N14)
2. Discuss profit as business objective as per Peter F Drucker?
   A. Refer 4(b) of the above question.

**Q.No.2. What are the Objectives of business? (A)**
   (PM, RTP - N14, N12-4M, M14 – 4M, N15 - 4M, N17 RTP)

**INTRODUCTION:**
a) A business has some purpose and such purpose is called Objective.

b) A Business has to create a customer or market. It is the customer who determines what a
business is.

c) Enterprises pursue multiple objectives rather than a single objective.

d) Enterprises seek to balance these objectives in an appropriate manner. The
various objectives of a business are survival, stability, growth, efficiency and
profitability.

**OBJECTIVES OF A BUSINESS:**

1. **SURVIVAL:**
   a) Survival is the **will and anxiety** to remain in business as long as possible.
   
   b) It is the **basic and implicit objective of every business**.
   
   c) It gains **more importance during the initial stage** of establishment of the business and during
general economic adversity.
   
   d) The **ability of a firm to survive** in business depends upon:
      - Nature of ownership,
      - Nature of business,
      - Competence of management,
      - General and industry conditions,
      - Financial strength of the enterprise, etc.

2. **STABILITY:**
   a) It is a cautious, conservative, least expensive and **less risky objective** in terms of managerial
time, talent and other resources.
   
   b) A **stable and steady enterprise**:
      - minimises managerial tensions and
      - demands less dynamism from managers.
   
   c) It is a **strategy of least resistance in a hostile external environment.**
3. **GROWTH:**
   a) This objective is related to Dynamism, Vigour, Promise and Success.
   b) An organisation's growth may take one or more of the forms like increase in assets, manufacturing facilities, sales volume, new products, higher profits and market share, increase in manpower employment, acquisition of other enterprises, etc.
   c) Growth may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.

4. **EFFICIENCY:**
   a) Business enterprises seek efficiency while choosing appropriate means to achieve their goals, doing things in the best possible manner and utilizing resources in a most suitable combination to get highest productivity.
   b) Efficiency is an economic version of the technical objective of productivity – designing and achieving suitable input output ratios of funds, resources, facilities and efforts.
   c) Efficiency is a very useful operational objective.

5. **PROFITABILITY:**
   a) Generally private enterprises are primarily motivated by the objective of profit.
   b) Some may even say that profit is the sole motive of business enterprises and all other objectives are just facilitative to profit objective.
   c) Private business enterprises are operated on behalf of and for the benefit of owners who take the business risk of investing their funds.
   d) Profit maximisation has a long-term perspective and includes development of wealth, increased goodwill and benefits to all shareholders.

6. **OTHER OBJECTIVES (IN THE MORE LONG - RUN):**
   - Technological Dynamism,
   - Surveillance,
   - Competitive Strength,
   - Customer Service and Product Quality,
   - Employee Satisfaction and Welfare
   - Contribution to Societal Welfare
   - Compliance with Laws and Government Regulations, etc.

**CONCLUSION:** So, from the above points we can say that earning profit is only one of the several objectives of a business firm.

**SIMILAR QUESTIONS:**

1. How would you analyse the meaning and importance of efficiency and profitability objectives of business? (PM, N 12 - 4M)

   A. Enterprises pursue multiple objectives rather than a single objective. In general, we may identify a set of different business objectives pursued by a large cross-section of enterprises. Efficiency and profitability are two of the important objectives of any business. Efficiency is the relationship between input and output whereas profitability is the relationship between profits and investments. + Explain 'Efficiency' & 'Profitability' objectives as given in the above answer.

   According to Peter F. Drucker, 'a business exists for making profit.' Comment.

   A. The statement that 'business exists for making profit' is true. But achieving profit alone is not the objective of a business firm. In addition to the profitability objective, businesses have many other objectives + explain the above objectives briefly.

2. How would you argue that modern enterprises pursue multiple objectives and not a single objective?

   A. Same as above

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Warren Buffet, the most successful investors in the world, a notable philanthropist, pledged to give away 99 percent of his wealth to philanthropic causes. →
Q.No.3. “Business environment exhibits many characteristics.” Explain. (A) (PM, N11, 13 - 3M)

**BUSINESS ENVIRONMENT:** Business environment consists of all those factors, events, trends and conditions that influence the decision making of business firms. The important **CHARACTERISTICS OF BUSINESS ENVIRONMENT** are:

1. **ENVIRONMENT IS COMPLEX:** The environment consists of number of factors, events, conditions and influences arising from different sources. All these do not exist in isolation but interact with each other to create entirely new sets of influences. Environment is a complex one that it is somewhat easier to understand in parts but difficult to grasp/understand in totality.

2. **ENVIRONMENT IS DYNAMIC:** The environment is constantly changing in nature. Due to the many and varied influences operating, there is dynamism in the environment causing it to continuously change its shape and character.

3. **ENVIRONMENT IS MULTI - FACETED:** What shape and character an environment assumes depends on the perception of the observer. A particular change in the environment, or a new development, may be viewed differently by different observers. This is frequently seen when the same development is welcomed as an opportunity by one company while another company perceives it as a threat.

4. **ENVIRONMENT HAS A FAR REACHING IMPACT:** The environment has a far reaching impact on organizations. The growth and profitability of an organization depends critically on the environment. Any environment change has an impact on the organization in different ways.

**SIMILAR QUESTIONS:**

1. Elaborate the characteristics of Business Environment with reference to Decision Making. (PM)

A. Decision making is a managerial process and function which is greatly influenced by the broad characteristics of business environment. These characteristics are: write the above 4 points.

Q.No.4. Explain the Interactions / Exchanges / Relationship between an Organisation and its Environment. (B) (PM, RTP N16, M13 - 3M)

A business does not function in isolation. It acts as a sub-system of its environment consisting of society, economy, laws, competitors and so on. Business draws certain inputs from environment in form of resources and information and transforms them into outputs.

**THE RELATIONSHIP BETWEEN THE ORGANIZATION AND ITS ENVIRONMENT MAY BE DISCUSSED IN TERMS OF INTERACTIONS BETWEEN THEM IN SEVERAL MAJOR AREAS WHICH ARE OUTLINED BELOW:**

1. **EXCHANGE OF INFORMATION:**

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<thead>
<tr>
<th><strong>Inflow</strong></th>
<th><strong>Outflow</strong></th>
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<tr>
<td>a) The organisation analyses variables in the external environment and generates important information useful for planning, decision-making and control purposes.</td>
<td>The organisation itself transmits information to several external agencies either voluntarily, inadvertently or legally.</td>
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<td>b) Information may relate to economic activity, market conditions, technological developments, social and demographic factors, political-government policies, the activities of other organisations, etc.</td>
<td>a) <strong>VOLUNTARILY:</strong> Product Advertisement, Road Show, Customer Meet, annual reports, etc.</td>
</tr>
<tr>
<td>c) Both current &amp; projected information is important for the organization.</td>
<td>b) <strong>INADVERTENTLY:</strong> It is possible to obtain some information from the behaviour of the organisation. E.g. Announcement of VRS Plan.</td>
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2. **EXCHANGE OF RESOURCES:**

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<th>Inflow</th>
<th>a) An organisation receives inputs – men, money, materials, methods, machinery from the external environment through contractual and other arrangements.</th>
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| Outflow | a) The organisation is dependent on external environment for distribution and disposal of its output i.e. products and services.  
| | b) This interaction process involves identifying the needs of the external environment and satisfying the expectations and demands of the stakeholders. |

3. **EXCHANGE OF INFLUENCE AND POWER:** (RTP N16)

| Inflow | a) External environment holds considerable power over the planning and decision-making process of an organisation because of its command over resources, information and other inputs.  
| | b) Environment offers a range of opportunities, incentives and rewards on the one hand and a set of constraints, threats and restrictions on the other.  
| | c) Government, competitors, markets, customers, suppliers, investors, etc. exercise significant collective power and influence over planning and decision making process of organisation. |
| Outflow | a) In some aspects, a firm can influences external environment.  
| | b) It can dictate the terms to the external forces and mould them to its will. |

**SIMILAR QUESTIONS:**

1. "A business enterprise is a sub – system of the larger environmental system". Discuss the relationship between the organization and its business environment. (RTP N15)
   A. Same as above. (PM, M13 - 3M)

2. Organisation and its Environment are interdependent. Comment.
   A. Same as above.

3. The external environment holds considerable power over the organization. How?
   A. Refer 3rd point in the above answer. (RTP N16)

**Q.No.5. What are the Basic Goals of Environmental Analysis? (A)** (PM)

With the help of environmental analysis, strategists get time to anticipate opportunities and to plan responses to exploit them. It also helps strategists to develop an early warning system to prevent threats or to develop strategies which can turn a threat to the firm's advantage. It is clear that because of the difficulty to assess the future, we can't anticipate all the future events. Through this analysis managers can concentrate on these few instead of having to deal with all the environmental influences.

**IN GENERAL, ENVIRONMENTAL ANALYSIS HAS THREE BASIC GOALS AS FOLLOWS:**

1. **TO UNDERSTAND CHANGES:** An analysis of the environment will provide information about the current and potential changes taking place in the environment. Every business should be aware of existing environment. It is important for the survival of the business.

2. **TO GENERATE INPUTS FOR STRATEGIC DECISION MAKING:** Proper environmental analysis will provide inputs for strategic decision making. Mere collection of data is not enough. The information collected should be relevant, timely and useful for strategic decision making.

3. **TO FACILITATE AND FOSTER STRATEGIC THINKING:** A proper environmental analysis leads to strategic thinking i.e. it will be a rich source of ideas and understanding of the context within which a firm operates. A firm should challenge the current knowledge by injecting fresh ideas into the firm.
SIMILAR QUESTIONS:
1. Explain the need for a business organization to scan the environment on a continuous basis.
   A. Same as above. (PM)
2. Why Environmental Analysis?
   A. Same as above.
   
   "It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change."
   - Charles Darwin

   "Positive trends in the environment breed complacency. That underscores a basic point: in change there is both opportunity and challenge."
   - Clifton Garvin

Q.No.6. Discuss the Problems in understanding the environmental influences (B)
   (PM N15 - 3M) (For student self - study)

The environment consists of several micro and macro factors that influence business enterprises. Some of these factors may directly impact business, while others may have insignificant influence. In spite of best of resources and capabilities it may not be possible for managers to make sense of all these influences due to limitations of human mind at one end and diversity, uncertainly and complexity of the environment on the other hand. These can be explained as follows:

1. **DIVERSITY**: The environment poses many different influences; the difficulty lies in understanding this diversity which can contribute to strategic decision-making. Listing all possible environmental influences may be possible, but it may not be of much use because no overall picture emerges of really important influences on the organization.

2. **UNCERTAINTY**: Due to the pace of technological change and the speed of global communications it is very difficult to understand future external influences on an organization.

3. **COMPLEXITY**: The environment consists of number of factors, events, conditions and influences arising from different sources. All these do not exist in isolation but interact with each other to create entirely new sets of influences. It is difficult to comprehend all the factors at once. Environment is complex and it is somewhat easier to understand in parts but difficult to grasp in totality.

SIMILAR QUESTIONS:
1. The environment has many different influences, but it is very difficult for the managers to make sense of these influences. Why?
   A. Same as above. (PM, N15 - 3M)

Q.No.7. What are the Components of Environment? (A)
   (PM, RTP- M14, N 11 - 4M, M 12 - 3M, N15 - 3M)

INTRODUCTION:

a) Business environment in which an organization exists can be broadly divided into two parts: External and Internal.

b) Internal environment is the environment that has a direct impact on the business and is within the control of the entrepreneurs. These are internal management, machinery, methods of production, etc.

c) External environmental factors are largely beyond the control of individual enterprise and are dynamic in the sense that they keep on changing.

d) The external environment of a business can be categorised into - (a) Micro-Environment & (b) Macro-Environment.
(NOTE: Micro & Macro environments put together is known as External Environment)

MICRO - ENVIRONMENT:
1. Micro-environment is related to small area or immediate periphery of an organization.
3. Within the micro or the immediate environment in which a firm operates we need to analyse the following issues:
   a) Employees of the firm, their characteristics and how they are organised.
   b) Customer base on which the firm relies for its business.
   c) The ways in which the firm can raise its finance.
   d) Links between the firm and its suppliers.
   e) The Local community in which firm operates
   f) Direct competition and how they perform.

MACRO - ENVIRONMENT:
 a) Macro-Environment constitutes the general environment, which affects the working of all firms.
 b) It is largely external to the firm and thus beyond the direct influence and control of the firm. But it shows powerful influence over the functioning of the business.
 c) It consists of individuals, groups, agencies, organisations, events, conditions and forces with which the organisation comes into frequent contact in the course of its functioning.
 d) It consists of demographics and economic conditions socio-cultural factors, political and legal systems, technological developments, etc.

SIMILAR QUESTIONS:
1. “Environment is the sum of several external and internal forces that affect the functioning of business”. Explain.
   (PM, M 12 - 3M, RTP- M14)
   A. Refer to the beginning paragraph in the above answer. No need to explain micro & macro factors.
2. Distinguish between Micro Environment and Macro Environment.
   A. Refer Fast Track Material.
   (PM, N 11 - 4M, N15 - 3M)

Q.No.8. Explain the Elements of Micro Environment  (A)
   (PM, RTP N16, M13-7M, N16-2M, N17 RTP)

MICRO ENVIRONMENT: It consists of all those factors that affect the functioning of a business firm in the daily operating level. These factors are individual firm specific and are controllable to certain extent.

Elements of Micro Environment

- Competitor
- Organisation itself
- Suppliers
- Market
- Intermediaries
- Customers

(COSMIC)

1. COMPETITORS:
   a) Competitors refer to other business entities that compete for resources as well as markets.
   b) Competition may be Direct or Indirect
i) Direct competition is between firms, which are in the same business activity.

ii) Indirect competition is between firms in different areas of activity.

c) The major aspects to be considered for analysing competition are:
   • Who are the competitors?
   • What are their present strategy and business objective?
   • Who are the most aggressive and powerful competitors?

2. ORGANISATION ITSELF:

a) Individuals occupying different positions or working in different capacities in organizations have different and varied interests.

b) Internal analysis or self-analysis is an important aspect of micro environment analysis. Organisation must understand its own strengths and weaknesses.

The Following Organisations Or Groups Affect the Organisation’s Environment:

i) Owners: Individuals, Shareholders, Groups or organisations, who have a major stake in the organisation will have interest in the well-being of the company.

ii) Board of Directors: The board of directors is elected by the shareholders and is charged with overseeing the general management of the organization to ensure that it is being run in a way that best serves the shareholders' interests.

iii) Employees: Employees are the people who actually do the work in an organization. There should be synchronization between the values and goals of the employees with that of the firm.

3. SUPPLIERS:

a) Suppliers provide inputs like Raw Materials, Components, Equipments, Services, etc.

b) Firms have to select an option between "Make or Buy" i.e. Own Production vs. Outsourcing, depending on the Supplier Environment.

c) Suppliers with their own bargaining power affect the cost structure of the industry. They constitute a major force, which shapes competition in the industry.

4. MARKET/INDUSTRY: Market is a larger term than customers. A manager should study the latest trends, developments and key success factors of the market in which the business is operating. Important issues relating to the market are:

a) Actual and Potential size,

b) Growth Prospects & Attractiveness,

c) Cost structure of the Market,

d) Price Sensitivity of the Market,

e) Technological Structure of the Market,

f) Existing Distribution System of the Market,

g) Is the market mature?

h) Possibility of Market Segmentation & Differentiation
5. INTERMEDIARIES:
   a) Intermediaries in the marketing channel i.e. Wholesalers, Retailers and Dealers establish an important link between the organisation and its customers.
   b) Intermediaries exert a considerable influence on the business organizations. In many cases the consumers are not aware of the manufacturer of the products they buy. They buy product from the local retailers or big departmental stores such as Best price, Big bazaar, etc. that are increasingly becoming popular in some big cities.

6. CONSUMERS/CUSTOMERS:
   a) The aim of any business is to Create and Retain customers.
   b) Customers are the people who pay money to acquire an organization’s products. The organizations cannot survive without customers.
   c) Customer may or may not be consumer. Consumer is one who ultimately consumes the product. Customer is one who buys product. E.g. A father may buy product for his child who will be consumer.
   d) Aspects to be considered in respect of consumers are:
      i) Potential Consumers/ Customer Groups,
      ii) Benefits & Utilities that Consumers/ Customers Expect,
      iii) Buying Patterns of Consumers,
      iv) Changes in Consumers’ tastes, preferences and expectations.

Q.No.9. Elements of Macro Environment (A)

MACRO ENVIRONMENT: It is explained as one which is largely external to the enterprise and thus beyond the direct influence and control of the organization. But it shows powerful influence over its functioning.

IMPORTANT ELEMENTS OF MACRO ENVIRONMENT ARE:

1. SOCIO-CULTURAL ENVIRONMENT: It consists of factors related to human relationships and the impact of social attitudes and cultural values which has bearing on the business of the organization.

2. DEMOGRAPHIC ENVIRONMENT: Some of the demographic factors have great impact on the business are age profile, sex ratio, income, education, growth rate affect the business with different magnitude.

3. ECONOMIC ENVIRONMENT: It includes general economic situation in the region and the nation, conditions in resource markets which influence the supply of inputs to the enterprise, their costs, quality, availability and reliability of supplies.
4. **POLITICAL - LEGAL ENVIRONMENT:** It consists of
   a) **Government:** Business is highly guided and controlled by government policies. Hence the type of government running a country is a powerful influence on business.
   b) **Legal:** Business organizations prefer to operate within a sound legal system. Legal environment consists of laws governing business.
   c) **Political:** Political pressure groups influence and limit organizations in the form of doing movements against certain products, service and organizations, which are against to the public interest.

5. **TECHNOLOGICAL ENVIRONMENT:** Technology can act as both opportunity and threat to a business. It can act as opportunity if business can adopt technological innovations to their strategic advantage and it can act as threat if organisations are not able to adopt it to their advantage.

6. **GLOBAL ENVIRONMENT:** Globalization refers to the process of integration of the world into one huge market. At the company level, globalization means two things: (a) the company commits itself heavily with several manufacturing locations around the world and offer products in several diversified industries, and (b) it also means ability to compete in domestic markets with foreign competitors.

**SIMILAR QUESTIONS:**

1. What is Environment? Briefly explain various macro environmental factors that affect an organization’s strategy? (RTP N14, N15)
   
   A. Refer Environment definition in fast track material - Elements in the above answer.

   Q.No.10. Explain the factors in Socio - Cultural Environment which have an impact on business. (C) (M16, N16 – 3M)

   1. This is a very general one which influences almost all enterprises in a similar manner.
   2. Socio - Cultural environment is a combination of factors like Social Traditions, Values and Beliefs, Level and Standards of Literacy and Education, Ethical Standards and state of society, Extent of Social Stratification, Conflict and Cohesiveness, etc. which determine the functioning of an organisation.
   3. Socio-cultural environment consist of factors related to human relationships and the impact of social attitudes and cultural values which has bearing on the business of the organization. The core beliefs of a particular society tend to be persistent. It is difficult for businesses to change these core values, which becomes a determinant of its functioning.

4. **SOME IMPORTANT FACTORS IN THIS ENVIRONMENT THAT INFLUENCE THE ACTIVITIES OF A BUSINESS ARE:**
   a) **Social Concerns**, such as the role of business in society, environmental pollution, corruption, use of mass media and consumerism.
   b) **Social Attitudes and Values**, such as expectations of society from business, social customs, beliefs, rituals and practices, changing lifestyle patterns & materialism.
   c) **Family Structure** and changes in it, attitude towards and within the family and family values.
   d) **Role of Women** in society, position of children and adolescents in family and society.
   e) **Educational Levels**, awareness and consciousness of rights and work ethics of members of society.

5. It affects the strategic management process in the areas of –
a) Mission & Objective Setting,
b) Decisions related to Products and Markets, and
c) Determining how individuals and organisations should be inter-related.

Q.No.11. Write short notes on Global Environment (C)

- Today's competitive environment requires that companies must analyse global environment as it is also rapidly changing.
- The new concept of global village has changed how individuals and organizations relate to each other.
- Further, new migratory habits of the workforce as well as increased offshore operations are changing the dynamics of business operation.

FACTORS OF GLOBAL ENVIRONMENT THAT SHOULD BE ASSESSED INCLUDE:

a) Potential Positive and Negative impact of Significant International Events. For e.g. sports meet or terrorist attack

b) Identification of changing and emerging global markets. This includes shifts in the newly industrialised countries in Asia that may imply the opening of new markets for products or increased competition from emerging globally competitive companies in countries such as South Korea and China.

c) Differences between cultural and institutional attributes of individual global markets.

Q.No.12. Nature of Globalisation (A)

1. MEANING OF GLOBALISATION:
   a) Globalization means several things for several people. For some it is a new paradigm - a set of fresh beliefs, working methods, and economic, political and socio-cultural realities in which the previous assumptions are no longer valid. For developing countries, it means integration with the world economy.
   b) In simple economic terms, globalization refers to the process of integration of the world into one huge market. Such unification calls for removal of all trade barriers among countries. Even political and geographical barriers become irrelevant.

2. EFFECTS OF GLOBALIZATION: At the company level, globalization means two things:
   a) The company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries, and
   b) It also means ability to compete in domestic markets with foreign competitors.

SIMILAR QUESTIONS:
1. Globalisation means different things to different people. (T/F)

A. Refer 1st point in the above answer. (M 10 - 2M)

2. Write short on Globalization?

A. Same as above (RTP N14)
Q.No.13. What is a Multinational or Global Company? (A) (PM, N 08 - 4M, N 12, N13, N16 - 3M)

1. **MEANING:**
   a) A Multinational Company (MNC) or a Transnational Company (TNC) is the one that by operating in more than one country, gains R&D, production, marketing and financial advantages in its costs and reputation that are not available to purely domestic competitors.

   b) A Multi National Company:
      i) Views the world as one market,
      ii) Minimizes the importance of national boundaries, and
      iii) Raises its capital and markets its products, wherever it can do the job best.

2. **CHARACTERISTICS OF A GLOBAL COMPANY:**
   a) It is a Conglomerate of multiple units (located in different parts of the globe) but all linked by common ownership.

   b) Multiple units draw from Common Pool of Resources, such as money, credit, information, patents, trade names and control systems.

   c) Inspite of pressure in different nations, the units or divisions of MNC may have common strategy in certain areas.

**SIMILAR QUESTIONS:**
1. Write short notes on Characteristics of a Global Company. (N 12 – 3M)
   A. Refer 2\textsuperscript{nd} point in the above answer

2. A global company has 3 characteristics. Explain. (N 13 – 3M)
   A. Refer 2\textsuperscript{nd} point in the above answer.

Q.No.14. Explain the reasons necessary for globalization by companies (A) (RTP- M16, M16 - 3M) (For student self-study)

**REASONS FOR GLOBALIZATION:** Major reasons for going global are as follows:

1. There is rapid shrinking of time and distance across the globe on account of faster communication, speedier transportation, growing financial flows and rapid technological changes.

2. Saturation in domestic markets. Domestic market is not large enough to absorb whatever is produced. Some European companies have gone global for this reason.

3. A successful new product does not remain limited to one geographical area or country. It gradually generates demand from other parts of the globe.

4. Justification of foreign investment keeping in view the size of foreign market.

5. To secure a reliable and cheaper source of raw materials. For example, low cost of labour in India is attracting foreign investments.

6. Companies set up overseas plants to reduce high transportation costs.

**SIMILAR QUESTIONS:**
1. Elaborate the reasons necessary for the globalization of companies. (M16- 3M)
   A. Same as above

2. Write short note on Reasons necessary for globalization of companies. (RTP N15)
   A. Same as above

3. Why do companies go global?
   A. Same as above
Q.No.15. Explain different Strategic Approaches to Globalization by a company (A) 

(PM, RTP M -16, N 08 - 6M)

STRATEGIC APPROACHES: A company which wishes to go global will be guided by the following three types of strategies:

1. **MULTI-DOMESTIC STRATEGY:**
   a) This Strategy is adopted when a company wants to achieve a high level of local responsiveness by matching its products and services to national conditions prevailing in the countries they operate in.
   b) The organization attempts to extensively customize their products and services according to the local conditions of different countries.

2. **GLOBAL STRATEGY:**
   a) A global strategy involves more standardization of products across country boundaries.
   b) Under this strategy, the company tries to focus on a low cost structure by leveraging their expertise in providing certain products and services and concentrating the production of these standard products and services at a few favourable locations around the world.
   c) Competitive strategy is centralized and controlled by the home office.

3. **TRANSNATIONAL STRATEGY:**
   a) A transnational strategy seeks to combine aspects of both multi-domestic and global strategies.
   b) Thus there is emphasizes on both local responsiveness and global integration and coordination.
   c) Though it is difficult to implement, environmental trends are causing multinational firms to consider the needs for both global efficiencies and local responsiveness.

When a firm adopts one or more of the above strategies, the firm would have to take decisions on the manner in which it would commence international operations. Expansion into foreign markets can be achieved through following options:

i) Exporting.  
ii) Licensing/ Franchising.  
iii) Joint Venture.  
iv) Foreign Direct Investment

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<tr>
<th>STRATEGIC APPROACH</th>
<th>OPERATIONS</th>
<th>PRODUCTS/ SERVICES</th>
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<tbody>
<tr>
<td>Multi- domestic</td>
<td>Decentralized</td>
<td>Customized</td>
</tr>
<tr>
<td>Global</td>
<td>Centralised</td>
<td>Standardised</td>
</tr>
<tr>
<td>Transnational</td>
<td>Centralised</td>
<td>Customised</td>
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SIMILAR QUESTIONS:

1. What is Global Strategy? (RTP- M14)
   A. Refer point ‘(2)’ in the above answer.

Q.No.16. What are the different Strategic Responses to the Environment? (A) 

(PM, RTP – N15, N14 - 4M)

SOME OF THE STRATEGIC RESPONSES TO THE ENVIRONMENT ARE:

1. **LEAST RESISTANCE (CONSERVATIVE APPROACH):**
   a) Some simple goal-maintaining units manage to survive by coping with their changing external environments. They are simply goal maintaining units.
b) Such enterprises are very passive in their behaviour and are solely guided by the signals of the external environment.

2. PROCEED WITH CAUTION (CAUTIOUS APPROACH):
   a) Some firms take an intelligent interest, to adapt with the changing external environment.
   b) They try to monitor the changes in environment, analyse their impact on their own goals and activities and try to prepare specific strategies for survival, stability and strength.
   c) This is a sophisticated strategy than to wait for changes to occur and then take corrective-adaptive action.

3. DYNAMIC RESPONSE (CONFIDENT APPROACH):
   a) Some firms treat external environmental forces as partially manageable and controllable by their actions and they try to convert those threats into opportunities.
   b) Their feedback systems are highly dynamic and powerful and generate a contingent set of alternative courses of action to be picked up as per the changing environment.
   c) Within certain limits, such firms can shape part of its external environment on reciprocal basis.

SIMILAR QUESTIONS:
1. It is difficult to determine exactly what business should do in response to a particular situation in the environment. Explain the various strategic approaches for it. (RTP N15)

A. Same as above

Q.No.17. Do you think that Competition is always bad for organisations? Comment. (A) (PM, RTP- M12)

1. All organizations have competition that makes their working challenging. Competition is neither a coincidence nor bad luck. All organizations have competition.

2. The nature and extent of competition that a business is facing in the market is one of the major factors affecting the rate of growth, income distribution and consumer welfare.

3. Competition makes organisations work harder, brings innovation and cost economies.

4. The benefit of competition is also enjoyed by the society and the markets in which organisations operate. The customers are able to get products at lower costs and better quality. They get better value of their money because of competition.

Q.No.18. Explain Michael Porter's Five Forces Model of Competition Analysis (A) (PM, RTP- M14,N15, N09 – 10M, N 11- 3M, N11, 12-3M)

MEANING: It is a powerful and widely used tool for systematically diagnosing the principal competitive pressures in a market and assessing their strength and importance. The model states that the state of competition in an industry is the result of competitive pressures operating in five areas of the overall market. The five forces together determine industry attractiveness/profitability. These five forces are:
1. **THREAT OF NEW ENTRANTS:** New entrants are always a powerful source of competition. The new capacity and product range they bring in throw up new competitive pressure. And the bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players.

2. **BARGAINING POWER OF CUSTOMERS:**
   a) This force will become heavier depending on the possibilities of the buyers forming groups or cartels. Mostly, this is a phenomenon seen in industrial products.
   b) Quite often, users of industrial products may come together formally or informally and bring pressure on the producer in matters such as price, quality and delivery.
   c) Bargaining power of the buyers influence - (i) product prices, and also (ii) costs and investments of the producer, because powerful buyers usually bargain for better services which involve costs and investment on the part of producer.

3. **BARGAINING POWER OF SUPPLIERS:**
   a) Quite often suppliers too exercise considerable bargaining power over companies.
   b) The more specialised the offering from the supplier, greater is his bargaining power. And, if the suppliers are also limited in number they stand a still better chance to exhibit their bargaining power.
   c) Bargaining power of suppliers determine the cost of raw materials and other inputs of the industry and therefore, industry attractiveness and profitability.

4. **RIVALRY AMONG CURRENT PLAYERS:** The rivalry among existing players is quite obvious. This is what is normally understood as competition. And it is obvious that for any player, competitors influence prices as well as the costs of competing in the industry, in production facilities, product development, advertising, sales force, etc.

5. **THREATS FROM SUBSTITUTES:**
   a) Substitute products are a latent indirect source of competition in an industry. In many cases they become a major source of competition.
   b) Substitute products that can offer price advantage and/or performance improvement to the consumer can significantly affect the competitive character of an industry. And they can bring it about all of a sudden.
   c) Wherever substantial investment in R&D is taking place, threats from substitute products can be expected.
   d) Substitutes, too, usually limit the prices and profits in an industry.

**STEPS:** The steps to determine competition in a given industry are:

**Step 1:** Identify the specific competitive pressures associated with each of the five forces.

**Step 2:** Evaluate how strong the pressures from each of the five forces are: (a) Fierce, (b) Strong, (c) Moderate to Normal or (d) Weak.

**Step 3:** Determine whether the collective strength of the five competitive forces is conducive to earning attractive profits or not.
SIMILAR QUESTIONS:
1. Industry is a composite of competitive pressures in five areas of the overall market. Briefly explain the competitive pressures. (N11 - 3M)
   A. Same as above.
2. How the new entrant affects the competition? (PM)
   A. Refer 1st point in the above answer.
3. Explain the factors that affect the strength of competitive pressures from substitute products. (PM)
   A. Refer 5th point in the above answer.
4. Discuss the Porter’s model for systematically diagnosing the significant competitive pressures in a market. (RTP - M 14)
   A. Same as above.
5. Define Five Forces Model (RTP - M12)
   A. Refer meaning in the above answer
6. Porter’s five forces model considers new entrants as a significant source of competition.
   A. Porter’s five forces model considers new entrants as major source of competition. + write 1st point as given in the above answer. (PM)

APPLICATION ORIENTED QUESTIONS

Q.No.19. What is Environmental Scanning? (A) (PM, N 14- 3M, N17 – 3M)

Organizational environment consists of both external and internal factors. Environment must be scanned so as to determine the factors that will influence organizational success.

MEANING: It is the process of gathering information regarding company’s environment, analyzing it and forecasting the impact of all predictable environmental changes.

FACTORS TO BE CONSIDERED:
1. Events are important and specific occurrences taking place in different environmental sectors.
2. Trends are the general tendencies or the courses of action along which events taking place. For example, changes in the consumer behavior, technology, etc.
3. Issues are the current concerns or problems that arise in response to events and trends.
4. Expectations are the demands made by interested groups in the light of their concern for issues.

SIMILAR QUESTIONS:
1. You have been hired as a consultant by a company to advise it on factors it need to consider for environmental scanning. Explain briefly these factors. (PM)
   A. Same as above.

Q.No.20. Write short notes on ‘Kieretsus’, a cooperative network of businesses in Japan (B) (PM, RTP - N14, N16, M16 - 4M)

1. Large co-operative networks of businesses in Japan are known as Kieretsus.
2. They are formed by companies in related industries, in order to enhance the abilities of individual member businesses and to compete in their respective industries.

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3. Kiretsu members are peers and may own significant amounts of each other's capital and may have common board members.

4. In Kiretsu, members remain independent companies in their own right.

5. The only strategy they have in common is to prefer to do business with other Kiretsu members both when buying and when selling.

6. Kiretsus are different from conglomerates (common in western countries and also found in India) wherein all members are lineated through ownership pattern.
   (A conglomerate is a combination of 2 or more companies engaged in entirely different businesses into one main company)

7. A Kiretsu also differs from a consortium or an association. The primary purpose of a Kiretsu is not to share information or agree industry standards but to share purchasing, distribution or any other function.

Q.No.21. Can a business succeed in the long run by focusing only on profit as its primary objective? What are the other objectives of a business? (A) (N15-4M, PM)

1. Business enterprises pursue multiple objectives rather than a single objective, however it is generally asserted that private enterprises are primarily motivated by profit.

2. All other objectives are facilitative objectives. However, profits cannot remain primary objective in long run.

3. Although some profits are necessary, organizations need to pursue other objectives such as survival, stability, growth and like. These objectives also change with the changes in the environment.

4. Organisations monitor the changes in the environment, analyse their impact on their own goals and activities and translate their assessment in terms of specific strategies.

5. In general, all organisations aim for optimum utilization of resources and economy in operational costs.

Some of the other important objectives of a business are as follows: Explain survival, stability, growth and efficiency objectives as given above.

Q.No.22. Assume that you are an entrepreneur who has an intense desire to get into business. What types of information relating to macro environment would you need to determine external opportunities and threats? (B) (PM, M14-4M)

1. Macro environment mainly consists of economic, technological, political, legal and socio-cultural elements.

2. For an entrepreneur it is important to identify those factors that are likely to affect the new business. Each of the elements can either create some opportunities or pose some threats. Particularly, he should scan the relevant changes happened in the recent past that can provide competitive edge.

3. For example, a technological innovation in the production process can be opportunity. Incentives such as cheaper land, tax free periods can be other form of opportunities. Entrepreneur has to identify such opportunities that can be capitalized to enter markets or provide an edge over the competitors. Entrepreneur shall also take care as these opportunities can also act as threats when competitors are able to exploit them.

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Q. No.23. PESTLE Framework (B) (RTP- N16)

The term PESTLE is used to describe a framework for analysis of macro environmental factors such as Political, Economic, Socio-cultural, Technological, Legal and Environmental influences on an organisation.

THE KEY FACTORS ARE:

1. **Political** factors are how and to what extent a government intervenes in the economy and the activities of corporate. Political factors may also include goods and services which the government wants to provide or be provided and those that the government does not want to be provided.

2. **Economic** factors have major impact on how businesses operate and take decisions. For example, Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy. Similarly, money supply, inflation, credit flow, per capita income, growth rates have a bearing on the business decisions.

3. **Social** factors affect the demand for a company's products and how that company operates.

4. **Technological** factors can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality and lead to innovation.

5. **Legal** factors affect how a company operates, its costs and the demand for its products.

6. **Environmental** factors affect industries such as tourism, farming and insurance. Growing awareness to climate change is affecting how companies operate and the products they offer - it is both creating new markets and diminishing or destroying existing ones.

SIMILAR QUESTIONS:

1. Explain PESTLE as a tool for analyzing the macro environment. Illustrate your answer with environmental influences that may be considered.

   A. Same as above

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Q.No.24. Analyse the following cases in the context of Michael Porter’s Five Forces Model: (i) A supplier has a large base of customers (ii) A manufacturer of sports goods has the advantage of economies of large scale production (iii) Products offered by competitors are almost similar (C) (PM, M 15- 3M)

   i) Large base of customers of an organization (supplier) may increase its bargaining power in comparison to the bargaining power of the customer.

   ii) The manufacturer of sports goods would be in better position amongst existing competitors since it has advantage of economies of scale. Even the threat of new entrants gets reduced.

   iii) Similar products will reduce the bargaining power of the rivals, i.e., competitors. In other words, the bargaining power of the customer will be more.

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Q.No.25. Write short notes on the role of Global Industries (B) (PM, RTP N15, M12 - 3M)

1. The term global industry specifically means an industry where a firm's competitive position in one country is affected by its position in other countries.

2. A global industry is one that by operating…. (write 1st point of Q.no.18)

3. The industries that reveal global pattern in today's world include automobiles, television sets, commercial aircrafts and boats, sporting equipment, watches, clothing, semiconductors, copiers and also the transfer of funds.
Q.No.26. Write short notes on Demographic Environment. (C) (N12 - 1M)

1. "Demographics" denote Characteristics of Population in an area, district, country or in the world.

2. It includes factors such as Race, Age, Income, Educational attainment, Asset Ownership, Home Ownership, Employment Status and Location, etc.

3. Business organizations have to study different demographic factors to address the following issues:
   - What demographic trends will affect the market size of the industry?
   - What demographic trends represent opportunities or threats? (e.g. young vs. ageing population, educational levels, etc)

4. THE FOLLOWING FACTORS SHOULD BE CONSIDERED IN THE ANALYSIS OF DEMOGRAPHIC ENVIRONMENT:

a) POPULATION SIZE: Population size is important to firms that require a "critical mass" of potential customers. Some of the most important changes in population size that have an influence on the business are:
   - Changes in a nation's birth rate and/or family size;
   - Increases or declines in the total population;
   - Effects of rapid population growth on natural resources or food supplies.

   India is the Youngest Country with more than 50 percent of the population below 30 years of age. Where as the population of the elderly (60 years or older) in China is dominating.

b) GEOGRAPHIC DISTRIBUTION OF POPULATION: Population shifts from one region of a nation to another or from non-metropolitan to metropolitan areas. This may have impact on the company's strategic competitiveness.

c) ETHNIC MIX: It refers to the Cultural Composition of Population. Issues to be analysed include:
   (PM)
   i) Need for changes in service design and delivery.
   ii) Need for new products and services and modification of existing products/ services.
   iii) Managers' preparedness to manage a more culturally diverse workforce.
   iv) Taking advantage of increased heterogeneity in workforce.

d) INCOME DISTRIBUTION: Tracing, tracking, forecasting and assessing changes in income patterns helps to identify new opportunities for business.

SIMILAR QUESTIONS:
1. Explain the meaning of Demographic Environment. (N 12 - 1M)
   A. Refer 1st & 2nd points above
2. What do you understand by Ethnic Mix? (PM)
A. Refer point 4(c) in the above answer.

Q.No.27. Write short notes on Economic Environment. (C)

1. Economic environment refers to Nature and Direction of Economy in which company competes or may compete.

2. Economic environment includes the general economic situation in the region and the nation, conditions in resource markets (money market, man power market, etc.) which influence the supply of inputs to the enterprise, their costs, quality, availability and reliability of supplies.

3. KEY ECONOMIC FACTORS TO BE CONSIDERED ARE:
   a) **RATES**: Interest Rates, Tax Rates, Inflation Rates, Money Market Rates, Exchange Rates, etc.
   
   b) **GDP ASPECTS**: Monetary and fiscal policies, Government budget deficits, GDP trends, Consumption patterns, Unemployment trends.
   
   c) **CUSTOMER RELATED**: Demand shifts for different categories of goods and services, Income differences by region and consumer groups, Propensity to Spend, Level of Disposable Income, etc.
   
   d) **EXTERNAL TRADE**: Economic conditions of foreign countries, Import/export factors, Coalitions of Countries/ Regional blocks.
   
   e) **GENERAL**: Availability of credit, Trade Block Formations, Price Fluctuations, Shift to a service economy, Worker productivity levels, Stock market trends.

Q.No.28. What are the aspects in Legal - Political Environment that affect business enterprises? (C)

**LEGAL - POLITICAL ENVIRONMENT INCLUDE FACTORS LIKE:**

a) General State of Political Development,

b) Degree of Politicalisation of Business and Economic Issues,

c) Political Stability,

d) Political Ideology and Practices of the ruling party,

e) Level of Political Morality,

f) Law and Order situation,

g) Public attitude towards business,

h) Specific Legal enactments and Framework in which the enterprise has to function,

i) Degree of effectiveness with which laws are implemented,

j) Government Policies (fiscal, monetary, industrial, labour and import-export policies)

(Note: Monetary Policy is under the control of RBI)

k) Extent and nature of government intervention in the economy and the industry,

### ELEMENTS IN POLITICAL LEGAL ENVIRONMENT:

| Government | • Business is highly guided and controlled by government policies.  
|            | • The type of government running a country is a powerful influence on business:  
|            | • A strategist has to **consider the changes in the regulatory framework and their impact on the business**. Taxes and duties that may be levied affect the business. For e.g., introduction of Fringe benefits Tax. |
| Legal      | • Business Organizations prefer to operate in a country where there is a sound legal system.  
|            | • Businesses **must understand the relevant laws** relating to companies, competition, intellectual property, foreign exchange, labour and so on. |
| Political  | • Political pressure groups influence and limit organizations by movements against certain products, service and organizations.  
|            | • Also special interest groups and political action committees **put pressure on business organizations to pay more attention to consumer’s rights, minority rights, and women rights.** |

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**Q.No.29. Explain the various aspects of Technological Environment. (C)**

1. Technology has changed the way people communicate through the invention of internet and tele-communication system.

2. Technology has changed the ways how business operates. This is leading to many new business opportunities as well as making many existing systems obsolete.

3. Technology can act as both opportunity and threat to a business. It can act as opportunity if businesses can take advantage of adopting technological innovations to their strategic advantage. At the same time technology can act as threat if organisations are not able to adopt it to their advantage.

4. The technology and business are highly interrelated and interdependent also.

5. **THE FOLLOWING FACTORS ARE TO BE CONSIDERED IN THE TECHNOLOGICAL ENVIRONMENT:**
   a) The pull of technological Change,
   b) Opportunities arising out of technological inventions,
   c) Risk and Uncertainty of technological development,
   d) Role of R&D in a country and Government’s R&D budget,
   e) Technologies used by the company (Manufacturing and Information Technologies),
   f) Which technologies are utilised in the company’s business, products, or their parts?
   g) How critical is each technology to each of these products and businesses?
   h) Which external technologies might become critical and why? Will they remain available outside the company?
   i) What has been the investment in the product and in the process side of these technologies? For the company and for its competitors? Design? Production? Implementation and service?
   j) What are the other applications of the company’s technologies? In which applications does the company currently participate and why? In which application does the company does not participate and why?
   k) Which technological investments should be curtailed or eliminated?
   l) What additional technologies will be required in order to achieve the current corporate business objectives?
   m) What are the implications of the technology and business portfolios for corporate strategy?
SIMILAR QUESTIONS:

1. Explain how technological factors present an opportunity as well as threat to a particular business organization.

A. Technology is the most dynamic of all the environmental factors. Changes in technology vitally affect the enterprise’s costs, profitability, plant location decisions, product lines, growth and development. + write 3rd point in the above answer.

2. Who is popularly known as the father of the concept of ‘Competitive Advantage’?

3. Amway, a US Consumer goods firm sells the same products, in the same way in all countries. Name the approach of Amway in global markets.

4. Nestle company sells its products in most countries and manufactures in many. Besides its managers and shareholders are from different Nations. Hence, Nestle Company is known as?

5. Microsoft, the global leader in the computer operating system market, introduces every time a new version of its windows operating system though its existing version of windows is in demand. What is the approach being adopted by Microsoft?

6. Johnson & Johnson Company is very keen on studying the changes in the nation’s birth rate. Name the type of study being conducted by Johnson & Johnson?

7. Intel, the market leader in computer micro processors insists on computer manufacturing companies to use ‘Intel Inside’ campaign in their advertisements. Under which one of the five forces of Michael Porter’s model can this be described as an example?

8. What is the cost that prevents a customer from changing his existing service provider and switching over to a new service provider?

9. Unilever, the parent company of HUL, introduces different products in different countries by centralizing its operational decisions globally. What type of approach is being followed by Unilever?

10. Among the various modes of entry into foreign markets, which one does involve a high risk and substantial amount of an organisation’s resources?

11. As a business manager, why should you make a thorough analysis of various environmental factors on a continuous basis?

12. Harley Davidson Company would like to launch its new model of bike at Rs.20 lakhs in India. What types of information does it require about various environmental factors?

13. LG, a South Korean consumer electronics company entered the Indian market by establishing its 100% subsidiary in Noida. What is the name of the mode of entry adopted by LG in India?

14. Citibank and Indian Oil Corporation together have launched a petro card, which the customers of Citibank can use to get fuel at IOC retail outlets. What is this arrangement between Citibank and IOC called?

15. List out the various regulatory bodies operating in different sectors in India?

16. Name the act that deals with ensuring the protection of consumer rights in India?

17. Mention the policy that deals with exports/imports in India.

18. What is monetary policy of India?

19. List out various ‘entry barriers’ you may encounter, if you want to start a business that manufacturers and markets steel.

THE END