Khandelwal Vaish Girls Institute of Technology

Internal Examination 2017 - 18

Business Environment

MBA Semester I

Question Paper & Answer Key

MM: 30 Time : 02:30 hours

1. **Explain the meaning of business environment and identify the importance and features of business environment?** (4)

Ans. The term ‘business environment’ connotes external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise. These include customers, competitors, suppliers, government, and the social, political, legal and technological factors etc. While some of these factors or forces may have direct influence over the business firm, others may operate indirectly. Thus, business environment may be defined as the total surroundings, which have a direct or indirect bearing on the functioning of business. It may also be defined as the set of external factors, such as economic factors, social factors, political and legal factors, demographic factors, technical factors etc., which are uncontrollable in nature and affects the business decisions of a firm.

Importance of Business Environment: There is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively. As stated above, the business environment is multifaceted, complex, and dynamic in nature and has a far-reaching impact on the survival and growth of the business. To be more specific, proper understanding of the social, political, legal and economic environment helps the business in the following ways:

- **Determining Opportunities and Threats:** The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.
- **Giving Direction for Growth:** The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.
- **Continuous Learning:** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.
- **Image Building:** Environmental understanding helps the business organisations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power.
- **Meeting Competition:** It helps the firms to analyse the competitors’ strategies and formulate their own strategies accordingly.

- **Identifying Firm's Strength and Weakness:** Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments.

Features of Business Environment: On the basis of the above discussion the features of business environment can be summarized as follows:

- Business environment is the sum total of all factors external to the business firm and that greatly influence their functioning.
- It covers factors and forces like customers, competitors, suppliers, government, and the social, cultural, political, technological and legal conditions.
- The business environment is dynamic in nature, that means, it keeps on changing.
- The changes in business environment are unpredictable. It is very difficult to predict the exact nature of future happenings and the changes in economic and social environment.
- Business Environment differs from place to place, region to region and country to country. Political conditions in India differ from those in Pakistan. Taste and values cherished by people in India and China vary considerably.

2. **Describe liberalization and privatization?** (4)

Ans. **Liberalization:** Liberalization refers to the process of eliminating unnecessary controls and restrictions on the smooth functioning of business enterprises. It includes:

- Abolishing industrial licensing requirement in most of the industries;
- Freedom in deciding the scale of business activities;.
- Freedom in fixing prices of goods and services;
- Simplifying the procedure for imports and exports;
- Reduction in tax rates; and
- Simplified policies to attract foreign capital and technology to India.

Through this liberalization process, Indian Economy has opened up and started interacting with the world in a big way. This has resulted in easy entry of foreign business organizations in India. This has further resulted in stiff competition and efficiency. Ultimately, liberalization has helped us in achieving a high growth rate, easy availability of goods at competitive rates, a healthy and flourishing stock market, high foreign exchange reserve, low inflation rate, strong rupee, good industrial relations, etc.

Privatization: Privatization refers to reducing the role of public sector by involving the private sectors in most activities. Due to the policy reforms announced in 1991, the expansion of public sector has literally come to a halt and the private sector registered fast growth in the post liberalized period. The issues of privatization include:

- reduction in the number of industries reserved for the public sector from 17 to 8 (reduced further to 3 later on) and the introduction of selective competition in the reserved area;
- disinvestment of shares of selected public sector industrial enterprises in order to raise resources and to encourage wider participation of general public and workers in the ownership in business;
- improvement in performance through an MOU system by which managements are to be granted greater autonomy but held accountable for specified results. In India, as a result of these steps, the post liberalisation phase has witnessed a massive expansion of the private sector business in India. You can have an idea of their expansion from the fact that the total capital employed in top 500 private sector companies rose from Rs. 1,39,806 crores in 1992-93 to Rs. 2, 34, 751 crores in 1994-95 (an expansion of 68% in just two years).

3. **Describe the role of SIDBI in developing the MSMEs in India.** (3)

Ans. For this technology up gradation & modernization of SSI units, SIDBI has a no. of schemes of assistance, the major among these are technology development &modernization fund(TDMF) scheme. In line with the announcement made by the union finance minister in union budget 95-96, SIDBI in April 95, had setup its own resources, a technology development &modernization fund with an ear mark corpus of 2 billion. The fund aims at encouraging existing industrial units in small scale sectors to modernize their production facilities & adopt improved & updated technology so as to strengthen their export capabilities. Direct assistance by way of term loan or participation in equity or both is providing to SSI units.

The TDMF scheme has been liberalized to include:

- Non exporting SSI/Ancillary units
- SSI/Ancillary units which are graduating out of SSI sectors on implementation of modernization programs as eligible units of assistance under this scheme.

4. **Write the salient features of the Consumer Protection Act 1986 in India.** (4)

Ans. Government of India has Enacted Consumer Protection Act, 1986. The Salient Features of Consumer Protection Act are:

- It is an umbrella legislation covering goods & services, but excluding transactions not involving consumers from the purview of the Act It covers all the sectors whether private, public, and cooperative or any person. The provisions of the Act are compensatory as well as preventive and punitive in character and the Act applies to all goods covered by sale of goods Act and services, availed of which was for a consideration, unless specifically exempted by the Central Government.
- It enshrines the following rights of consumers:
    - right to be protected against the marketing of goods and services which are hazardous to life and property;
    - right to be informed about the quality, quantity, potency, purity, standard and price of goods or services so as to protect the consumers against unfair trade practices;

- right to be assured, wherever possible, access to a variety of goods and services at competitive prices;
- right to be heard and to be assured that consumers' interests will receive due consideration at the appropriate.
- right to seek redresses against unfair trade practices or unscrupulous exploitation of consumers; and
- right to consumer education;

- The Act also envisages establishment of Consumer Protection Councils at the central, state and district levels, whose main objectives is to promote and protect the rights of consumers;
- The Act provides for simple, inexpensive and timely redresses of consumer complaints. To this end the Act envisages a three-tier quasi-judicial machinery at the national, state and district levels. These are: National Consumer Disputes Redresses Commission known as National Commission, State Consumer Disputes Redresses Commissions known as State Commissions and District Consumer Disputes Redresses Forum known as District Forum. As on date, 627 District, 35 State Commissions and the National Commission have been established in the country. The Act also provides for setting up of Consumer Protection Councils at the Central, State and District level, which are advisory bodies to promote and protect the rights of the consumers.
- The provisions of this Act are in addition to and not in derogation of the provisions of any other law for the time being in force.

At the apex level the Ministry of Consumer Affairs looks after the consumer Protection in India. Then the State Governments also have a ministry to look after consumer protection, some of the states still have the name of civil Supplies Ministry.

Government of India has created three-tier redressal system of disputes, comprising District Forums, State Commission, and the National Commission.

5. **Explain IDRA and write its objectives.** (4)

Ans. **The Industries Development and Regulation Act of India (1951):** The Industries (Development and Regulation) Act, (IDRA), came into force from 8th May 1952 under a notification of the Central Government published in the Gazette of India. The Act extends to whole of India including the state of Jammu & Kashmir with a view to being under Central and regulation of a number of important industries, the activities of which affect the country as a whole and the development of which must be governed by economic factors of all India importance.

Objectives of the Act:

- **To implement the Industrial Policy:** The Act provides the necessary means to the Central Government in order to implement its industrial policy.
- **Regulation and Development of Important Industries:** The Act brings under the control of the Central Government the development and regulation of a number of important industries listed m the first schedule attached to the Act as the activities of

such industries will affect the country as a w o e and, therefore, the development of such important industries must be governed by the economic factors of all India importance.

- **Planning and Future Development of New Undertakings:** A system of licensing is introduced under the Act to regulate planning and future development of new undertaking on sound and balance lines and may be deemed expedient in the opinion of the Central Government.

  The Act confers on the Central Government power to make rules for the registration of existing undertakings for regulating he production and development of the industries specified in the schedule attached to the Act The Ac a so provided for the constitution of the Central Advisory Council and Development Council.

6. **Write importance of Agriculture in the Indian Economy?** (4)

Ans. **Importance of Agriculture in the Indian Economy:** In India, the agricultural sector occupies a vital position in the overall economy of the country as would be clear from the following:

a. **Share of Agriculture in National Income:** Agriculture has got a prime role in Indian economy. Though the share of agriculture in national income has come down, still it has a substantial share in GDP. The contributory share of agriculture in Gross Domestic Product was 55.4 percent in 1950-51, 52 percent in 1960-61 and is reduced to 18.5 percent only at present. The share of the agricultural sector's capital formation in GDP has declined from 2.2 percent in the late-1999s to 1.9 per cent in 2005-06.

b. **Important Contribution to Employment:** Agriculture sector, at present, provides livelihood to 65 to 70 per cent of the total population. The sector provides employment to 58.4 per cent of country's workforce and is the single largest private sector occupation.

c. **Important Source of Industrial Development:** Various important industries in India find their raw material from agriculture sector -cotton and jute textile industries, sugar, vanaspati, etc. are directly dependent on agriculture. Handlooms, spinning oil milling, rice thrashing, etc. are various small scale and cottage industries, which are dependent on agriculture sector for their raw material. This highlights the importance of agriculture in industrial development of the nation.

d. **Importance in International Trade:** India's foreign trade is deeply associated with agriculture sector. Agriculture accounts for about 14.7 per cent of the total export earnings. Besides, goods made with the raw material of agriculture sector also contribute about 20 per cent in Indian exports. In other words, agriculture and its related goods contribute about 38 per cent in total exports of country.

In short, agriculture occupies a central place in the Indian economy. Its performance sets the pace of growth in the economy as a whole. It should, however, be noted that Indian agriculture is still in the state of backwardness, the per capita productivity in agriculture is less than in industry.

Some other points :

- The history of agriculture in India goes back to **Rigveda**. From years ago the majority of Indian population depends on agriculture. Even today around 58% of rural Indian population depends on agriculture for their bread and butter.

- Agriculture always pay an important contribution in the GDP of India(currently 17.9% of GDP).India is the largest producer of many fruits and vegetables ,milk , major spices etc. India is the second largest producer of wheat and rice ,major staples of the world. Even 10% of the export earnings comes from agriculture.

- But according to recent survey the population of India is increasing at a much higher rate as compared to the production of rice and wheat or any other agricultural product. The main reason is that though the population is increasing but not the land . So the only option is to increase the production per area , but majority of Indian farmers are still using the same old agricultural practices that were used in ancient period our neighboring country China has developed the technology of **artificial rain** but we still depends on monsoons.

- There is an urgent need to mechanize the agricultural operations (use machines to carry out basic agricultural practices like irrigation, weeding etc) as it increases the production and decreases the wastage of labor force.

- With so many technologies related to agriculture emerging in other parts of the world ,there is a dire need of young and ignite minds in Indian agriculture sector.

- The market structure of Indian agriculture is really in bad shape . In the absence of good marketing facility the farmers are forced to depend upon local traders and middleman for the disposal of their farm. They are forced to sell to them as they cannot afford to wait for long after harvesting their crops.

7. **What are Merger and Acquisitions? Explain the types of Merger?** (4)

Ans. The term 'merger' is not defined under the Companies Act, 1956 ("CA 1956"), and under Income Tax Act, 1961 ("ITA"). However, the Companies Act, 2013 ("CA 2013") without strictly defining the term explains the concept. A 'merger' is a combination of two or more entities into one; the desired effect being not just the accumulation of assets and liabilities of the distinct entities, but organization of such entity into one business. The possible objectives of mergers are manifold - economies of scale, acquisition of technologies, access to sectors / markets etc. Generally, in a merger, the merging entities would cease to be in existence and would merge into a single surviving entity. The ITA does however defines the analogous term 'amalgamation': the merger of one or more companies with another company, or the merger of two or more companies to form one company. The ITA goes on to specify certain other conditions that must be satisfied for an 'amalgamation' to benefit from beneficial tax treatment.

Our laws envisage mergers can occur in more than one way, for example in a situation in which the assets and liabilities of a company (merging company) are vested in another company (the merged company). The merging company loses its identity and its shareholders become shareholders of the merged company. Another method could be, when the assets and liabilities

of two or more companies (merging companies) become vested in another new company (merged company). The merging companies lose their identity. The shareholders of the merging companies become shareholders of the merged company. The CA 1956 (Sections 390 to 394) and CA 2013 (Sections 230 to 234), deal with the schemes of arrangement or compromise between a company, its shareholders and/or its creditors. These provisions are discussed in greater detail in Part II of this Paper. Commercially, mergers and amalgamations may be of several types, depending on the requirements of the merging entities: Although, corporate laws may be indifferent to the different commercial forms of merger / amalgamation, the Competition Act, 2002 does pay special attention to the forms.

- **Horizontal Mergers:** Also referred to as a 'horizontal integration', this kind of merger takes place between entities engaged in competing businesses which are at the same stage of the industrial process.2 A horizontal merger takes a company a step closer towards monopoly by eliminating a competitor and establishing a stronger presence in the market. The other benefits of this form of merger are the advantages of economies of scale and economies of scope. These forms of merger are heavily scrutinized by the competition commission.
- **Vertical Mergers:** Vertical mergers refer to the combination of two entities at different stages of the industrial or production process. For example, the merger of a company engaged in the construction business with a company engaged in production of brick or steel would lead to vertical integration. Companies stand to gain on account of lower transaction costs and synchronization of demand and supply. Moreover, vertical integration helps a company move towards greater independence and self-sufficiency.
- **Congeneric Mergers:** These are mergers between entities engaged in the same general industry and somewhat interrelated, but having no common customer-supplier relationship. A company uses this type of merger in order to use the resulting ability to use the same sales and distribution channels to reach the customers of both businesses.
- **Conglomerate Mergers:** A conglomerate merger is a merger between two entities in unrelated industries. The principal reason for a conglomerate merger is utilization of financial resources, enlargement of debt capacity, and increase in the value of outstanding shares by increased leverage and earnings per share, and by lowering the average cost of capital.4 A merger with a diverse business also helps the company to foray into varied businesses without having to incur large start-up costs normally associated with a new business.
- **Cash Merger:** In a 'cash merger', also known as a 'cash-out merger', the shareholders of one entity receives cash instead of shares in the merged entity. This is effectively an exit for the cashed out shareholders.
- **Triangular Merger:** A triangular merger is often resorted to, for regulatory and tax reasons. As the name suggests, it is a tripartite arrangement in which the target merges with a subsidiary of the acquirer. Based on which entity is the survivor after such merger, a triangular merger may be forward (when the target merges into the subsidiary and the subsidiary survives), or reverse (when the subsidiary merges into the target and the target survives).

Acquisitions: An 'acquisition' or 'takeover' is the purchase by one person, of controlling interest in the share capital, or all or substantially all of the assets and/or liabilities, of the target. A takeover may be friendly or hostile, and may be effected through agreements between the offer or and the majority shareholders, purchase of shares from the open market, or by making an offer for acquisition of the target's shares to the entire body of shareholders. Acquisitions may be by way of acquisition of shares of the target, or acquisition of assets and liabilities of the target. In the latter case the business of the target is usually acquired on a going concern basis. Such a transfer is referred to as a 'slump sale' under the ITA and benefits from favourable taxing provisions vis-à-vis other transfers of assets/liabilities (discussed in greater detail in Part VI of this Paper). Section 2(42C) of the ITA defines slump sale as a "transfer of one or more undertakings as a result of the sale for a lump sum consideration without values being assigned to the individual assets and liabilities in such sales". An acquirer may also acquire a greater degree of control in the target than what would be associated with the acquirer's stake in the target, e.g., the acquirer may hold 26% of the shares of the target but may enjoy disproportionate voting rights, management rights or veto rights in the target.

Another form of acquisitions may be by way of demerger. A demerger is the opposite of a merger, involving the splitting up of one entity into two or more entities. An entity which has more than one business, may decide to 'hive off' or 'spin off' one of its businesses into a new entity. The shareholders of the original entity would generally receive shares of the new entity. If one of the businesses of a company is financially sick and the other business is financially sound, the sick business may be demerged from the company. This facilitates the restructuring or sale of the sick business, without affecting the assets of the healthy business. Conversely, a demerger may also be undertaken for moving a lucrative business into a separate entity. A demerger may be completed through a court process under the Merger Provisions or contractually by way of a business transfer agreement.

8. **Write note on Foreign Direct Investment.** (3)

Ans. Foreign Direct Investment India's story with respect to exchange control is one of a gradual, deliberate and carefully monitored advance towards full capital account convertibility. Though significant controls have been removed and foreign companies can freely acquire Indian companies across most sectors, these are subject to strict pricing and reporting requirements imposed by the central bank, the Reserve Bank of India ("RBI"). Investments in, and acquisitions (complete and partial) of, Indian companies by foreign entities, are governed by the terms of the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 (the "FI Regulations") and the provisions of the Industrial Policy and Procedures issued by the Secretariat for Industrial Assistance (SIA) in the Ministry of Commerce and Industry, Government of India. The FI Regulations segregate foreign investments into various types: foreign direct investments (FDI), foreign portfolio investments (FPI), investments by nonresident Indians (NRI) on portfolio basis, or on non repatriation basis, foreign venture capital investments.

Foreign Direct Investment (FDI) Schedule 1 of the FI Regulations contains the Foreign Direct Investment Scheme ("FDI Scheme"), and sets out the conditions for foreign direct investments

in India. Annex A of the FDI Scheme sets out the sectors in which FDI is prohibited. This list includes sectors such as lottery, gambling, defenses etc. A foreign investor can acquire shares or convertible debentures60 in an Indian company up to the investment (or sectarian) caps for each sector provided in Annexure B to the FDI Scheme. Investment in certain sectors requires the priority:

- **Foreign investor** may also subscribe to preference shares. However, in order to fall under the automatic route, the preference shares / debentures must be compulsorily convertible into equity, failing which the investment will be treated as a debt and the External Commercial Borrowings (ECB) policy will be applicable. Approval of the Foreign Investment Promotion Board ("FIPB") of the Government of India, which is granted on a case to case basis. As per Press Note 6 of 2015, any foreign equity inflow that requires prior FIPB approval and is above INR 3,000 crores requires a prior approval of the Cabinet Committee on Economic Affairs.
- **Portfolio Investment Scheme** Foreign portfolio investors registered with the SEBI as per the SEBI (Foreign Portfolio Investment) Regulations, 2014 and non-resident Indians ("NRI"), are permitted to invest in shares / convertible debentures under the portfolio investment scheme. This scheme permits investment in listed securities through the stock exchange.
- **Foreign venture** capital investors ("FVCI") An FVCI registered with the SEBI can invest in Indian venture capital undertakings, venture capital funds or in schemes floated by venture capital funds under the terms of Schedule 6 of the FI Regulations. One of the important benefits of investing as an FVCI is that an FVCI is not required to adhere to the pricing requirements that are otherwise required to be met by a foreign investor under the automatic route61 when purchasing or subscribing to shares or when selling such shares.