मङ्गलायतन विश्वविद्यालय

॥ विश्वं ज्ञाने प्रतिष्ठितम् ॥

MANGALAYATAN
U N I V E R S I T Y

Learn Today to Lead Tomorrow

Business Environment

MGO-1203

Edited By

Dr.Rajeev Sharma

DIRECTORATE OF DISTANCE AND ONLINE EDUCATION

MANGALAYATAN
UNIVERSITY

Contents

1. FUNDAMENTALS OF BUSINESS ENVIRONMENT 1–23
   - 1.1. Learning Objectives 1
   - 1.2. Introduction 1
   - 1.3. Meaning 2
   - 1.4. Definition 2
   - 1.5. Nature of Business Environment 3
   - 1.6. Features/Characteristics of Business Environment 3
   - 1.7. Factors Affecting Environment Business and their Interactions 4
   - 1.8. Types of Business Environment 5
   - 1.9. Importance of Environment 17
   - 1.10. Environmental Analysis 19
   - 1.11. Summary 22
   - 1.12. Review Exercises 23

2. LIBERALIZATION, PRIVATIZATION, GLOBALIZATION AND DIFFERENT TYPES OF ECONOMY (LPG POLICY) 24–45

LIBERALIZATION

   - 2.1. Learning Objectives 25
   - 2.2. Introduction 25
   - 2.3. Definition 25
   - 2.4. Features of Liberalization in India 25
   - 2.5. Economic Liberalization Policy of India 26

PRIVATIZATION

   - 2.6. Learning Objectives 27
   - 2.7. Introduction 27
   - 2.8. Definition 27
   - 2.9. Features of Privatization 27
   - 2.10. Process of Privatization 28

GLOBALIZATION

   - Learning Objectives 30
   - 2.11. Introduction 30
   - 2.12. Definition 30
   - 2.13. Features of Globalization 30
   - 2.14. Globalization Environment 31
   - 2.15. Industrial Licensing 33
   - 2.16. Consumer Movement and Consumerism 34

DIFFERENT TYPES OF ECONOMY

1.	**CAPITALISM ECONOMY**	**36**
2.17.	Definition	36
2.18.	Classification of Capitalism Economy	36
2.19.	Features of Capitalism	37
2.20.	Some More Important Features of Capitalism	37
2.	**SOCIALIST ECONOMY**	**38**
2.21.	Introduction	38
2.22.	Definition	39
2.23.	Meaning	39
2.24.	Features of Socialist Economy	39
2.25.	Socialism Environment	40
2.26.	General Features of Socialism Economy	41
3.	**MIXED ECONOMY**	**41**
2.27.	Definition	41
2.28.	Features of Mixed Economy	42
2.29.	Mixed Economy	42
2.30.	Summary	43
2.31.	Review Exercises	45
3.	**ENVIRONMENT OF BUSINESS**	**46–109**
3.0.	Learning Objectives	48
3.1.	Introduction	48
3.2.	Definitions	48
3.3.	Meaning of Business Environment	49
3.4.	Nature of Business Environment	49
3.5.	Significance of Business Environment	50
3.6.	Features/Characteristics of Business Environment	50
3.7.	Importance of Business Environment	51

ECONOMIC ENVIRONMENT

3.8.	Introduction	52
3.9.	Definition	52
3.10.	Nature of Environmental Economics	53
3.11.	Characters Features of Economic Environment	53
3.12.	Economic Environment	54
3.13.	Types of Government: Political System	54
3.14.	The World Economy: An Overview	55
3.15.	Economic Policies	57
3.16.	Economic Indicators	59
3.17.	World Economic Indicators: An Overview	59

POLITICAL ENVIRONMENT

3.18.	Introduction	60
3.19.	Meaning	60
3.20.	Nature of Political System	61
3.21.	Characteristics of Political System	61
3.22.	Political Environment	62
3.23.	Types of Political Systems	63
3.24.	Political Risks of Global Business	64
3.25.	Government Encouragement of Global Business	65
3.26.	Economic Role of Government	66
3.27.	Need for Government Intervention in Business	68

SOCIO-CULTURAL ENVIRONMENT

3.28.	Definition	72
3.29.	Characteristics of Socio-cultural Environment	72
3.30.	Variables of Socio-cultural	73
3.31.	Socio-cultural Environment Affect Business	74

NATURAL AND TECHNOLOGICAL ENVIRONMENT

3.32.	Introduction	75
3.33.	Natural and Technological Environment	75
3.34.	Definition	75
3.35.	Meaning	75
3.36.	Features/Characteristics of Natural and Technological Environment	75
3.37.	Technological Environment	76
3.38.	Defining Technology	76
3.39.	Components of Technology	78
3.40.	Characteristics of Technology	79
3.41.	Types of Technology	81
3.42.	Growth of Technology	82
3.43.	Defining Growth	83
3.44.	Classification of Growth	84
3.45.	Organizational Characteristics that Facilitate the Innovative/Technological Process	85
3.46.	The Impact of Growth of Technology on Indian Business Environment	86
3.47.	Information Technology	88
3.48.	Benefits of Information Technology (IT)	89
3.49.	Operations Technology and Management of Technology	90

LEGAL ENVIRONMENT

3.50.	Introduction	90
3.51.	Meaning	92
3.52.	Definition	92
3.53.	Characteristics of a Legal Environment of Business	92

3.54.	Legal System	92
3.55.	Basis of Industrial Dispute	94
3.56.	Dispute Settlement	94
3.57.	Environmental Pollution	98
3.58.	Pollution Control	98
3.59.	Sources and Causes	99
3.60.	Effects	100
3.61.	Regulation and Monitoring by Region	100
	GLOBAL BUSINESS ENVIRONMENT	
3.62.	Introduction	103
3.63.	Definition	103
3.64.	Meaning	103
3.65.	Characteristics of the Global Business Environment	103
3.66.	Summary	106
3.67.	Review Exercises	108
4.	**LEGAL FRAMEWORK**	**110–164**
4.0.	Learning Objectives	111
4.1.	Introduction	111
4.2.	Meaning	111
	THE COMPETITION ACT 2002	
4.3.	History	112
4.4.	Definitions Under Competition Act	112
4.5.	The Competition Act, 2002	113
4.6.	Remedies under the Competition Act, 2002	116
4.7.	Conclusion	118
	FOREIGN EXCHANGE MANAGEMENT ACT (FEMA)	
4.8.	Introduction	118
4.9.	Scope of FEMA	119
4.10.	Functions of the Reserve Bank of India	120
4.11.	Authorized Dealings in Foreign Exchange and Securities–through the RBI	120
4.12.	Capital Account Transaction	122
4.13.	Some Terms Used in FEMA	124
	STOCK EXCHANGES AND ITS REGULATION	
4.14.	Introduction	127
4.15.	Stock Exchange and the SEBI	127
4.16.	Regulation of Stock Exchange	128
4.17.	Definition	128
4.18.	Major Stock Exchanges of India	129
4.19.	Over the Counter Exchange of India (OTCEI)	130

4.20. Listing of Securities 131
4.21. Badla System/Carry Forward Transactions 132
4.22. Capital Issues (Contract) Act (CICA), 1947 133
4.23. Roles and Function of SEBI 134
4.24. Secondary Market and Various Intermediaries 137

ECONOMIC POLICY

4.25. Introduction 139
4.26. Fiscal Policy 139
4.27. Monetary Policy 140
4.28. Industrial Policy 141
4.29. Industrial Policy Resolution 1948 141
4.30. Industrial Policy 1956 142
4.31. Industrial Policy 1977 143
4.32. Changes in the Industrial Policy Since 1884 144
4.33. Industrial Licensing 144
4.34. Import Policy 146
4.35. Exports Policy 147

POLICY TOWARDS SICK UNITS

4.36. Definition 155
4.37. Symptoms of Sickness 155
4.38. Causes 156
4.39. Criteria to Identify Sickness/Incipient Sickness 157
4.40. Reasons and their Consequences of Sickness 158
4.41. Prevention of Sickness 159
4.42. Summary 161
4.43. Review Exercises 163

5. EMERGING TREND **165–219**

5.0. Learning Objectives 166
5.1. Introduction 166
5.2. Meaning of E-business 167
5.3. Meaning of Electronic Commerce (E-commerce) 167
5.4. Definitions of E-commerce 167
5.5. E-business v/s E-commerce 167
5.6. Opportunities of E-business 168
5.7. Scope of E-business 168
5.8. Uses of E-business 171
5.9. Benefits of E-business 174
5.10. Limitations of E-business 175
5.11. Resources Required for Successful E-business Implementation 177
5.12. Online Transactions 177

5.13.	Security and Safety of Business Transaction	181
5.14.	Methods to Ensure Security and Safety of E-business Transactions	181

OUTSOURCING

5.15.	Introduction	182
5.16.	Meaning/Concept of Outsourcing Services	182
5.17.	Nature/Features of Outsourcing	183
5.18.	Scope of Outsourcing	184
5.19.	Advantages/Need of Outsourcing	184
5.20.	Limitation of Outsourcing	185
5.21.	Types of Outsourcing Services	186

CORPORATE SOCIAL RESPONSIBILITY

5.22.	The Role of Corporate Social Responsibility	189
5.23.	Some Factors that Determine the Role of Social Responsibility	189
5.24.	Impact of CSR	190
5.25.	CSR Trends in India	191
5.26.	CSR Amendments Under the Companies (Amendment) Act, 2019	191
5.27.	The Methodology of CSR	191
5.28.	Benefits of Employees from Corporate Social Responsibility	192

SOCIAL RESPONSIBILITY OF BUSINESS IN INDIA

CORPORATE SOCIAL RESPONSIBILITY OF BUSINESS

5.29.	Introduction	194
5.30.	Definition	194
5.31.	Meaning	194
5.32.	Need For Corporate Social Responsibility	195

ROLE OF CORPORATE SOCIAL RESPONSIBILITY

5.33.	Barriers to Social Responsibility	195
5.34.	Potential Business Benefits of CSR	196
5.35.	Concept of Social Responsibility	196
5.36.	Case for Social Responsibility	198
5.37.	Social Responsibility Towards Different Interest Groups	200
5.38.	Kinds of Social Responsibility	206
5.39.	Environment Protection and Business	207
5.40.	Major Environmental Pollution Control Activities	209
5.41.	Business Ethics	210
5.42.	Summary	213
5.43.	Review Exercises	217

Unit-1

Fundamentals of Business Environment

Notes

Structure

1.1. Learning Objectives
1.2. Introduction
1.3. Meaning
1.4. Definition
1.5. Nature of Business Environment
1.6. Features/Characteristics of Business Environment
1.7. Factors Affecting Environment Business and their Interactions
1.8. Types of Business Environment
1.9. Importance of Environment
1.10. Environmental Analysis
1.11. Summary
1.12. Review Exercises

1.1. Learning Objectives

After going through this unit, you will be able to:

- Understand the concept and dimensions of Business Environment
- Know various types of Business Environment and their importance for Business
- Know the components of Business Environment
- Know about external and Internal Environment
- Know how, environment influences the business decision-making

1.2. Introduction

Environment exactly means the surroundings, external objects, influences or circumstances under which someone or something exists. The environment of any organization is "the aggregate of all conditions, events and influences that surround and affect it." Davis, K. *The Challenge of Business* (New York: McGraw Hill, 1975), P. 43. Environment refers to all external forces which have a bearing on the functioning of business. Jauch and Gluecke have defined environment in the following manner "Environment includes factors outside the firm which can lead to opportunities or a threat to the firm. Although there are many factors; the most important of the factors are socio-economic, technological, supplier, competitor and government." The recent changes in tariff rates have changed the toy industry of India with the market now being dominated by the Chinese products. A slight change in the Reserve Bank of India's monetary policy can increase or decrease interest rates in the market. A slight shift in the government's fiscal policy can shift the whole demand curve towards the right or the left.

Notes

Hindustan Lever Limited (HLL) took advantage of the new takeover and merger codes and acquired brands like Kissan from the UB group, TOMCO (Tata Oil Mills Company) and Lakme from Tata and Modern Foods from the government, besides many other small takeovers and mergers.

The new moguls of the Indian business are those who predicted the changes in the environment and reacted accordingly. Azim Premji of Wipro, Narayana Murthy of Infosys, Subhash Goyal of ZEE, the Ambanis of Reliance, L.N. Mittal of Mittal Steel, Sunil Mittal of Bharti Telecom are some of them.

Even a small businessman who plans to open a small shop as a general merchant in his town needs to study the environment before deciding where he wants to open his shop, the products he intend to sell and what brands he wants to stock.

The relation between a business and surroundings is not a one way concern. The business as well evenly influences the external environment and can bring about changes in it. Powerful business lobbies, for example, enthusiastically work towards changing policies of government.

The business environment is not all on the subject of the economic environment but as well on the subject of the social and political environment. Politically, after the Congress government came to power at the centre with the support of the CPI in May 2004, the whole process of disinvestments took a U-turn. In the same way, a new sociological order in India today has created a market for fast foods, packaged foods, multiplexes, designer names, Valentine day gifts and presents, and gymnasiums and clubs, etc.

So it is quite obvious that success in a business depends upon better understanding of the environment. A successful organization doesn't look at the environment on an ad hoc basis but develops a system to study the environment on a continuous basis to try and protect the organization from every possible threat and to take the advantage of every opportunity. Sometimes better and timely understanding of the environment can even turn a threat into an opportunity.

1.3. Meaning

No business can exist in a vacuum. The rapidly changing business environment might shorten the life of a given strategy. The external changes might influence the activities and quality of decisions of both the firm and its competitors. George Salk says, "If you're not faster than your competitor, you're in a tenuous position, and if you're only half as fast, you're terminal."

Hence, as Kenich Ohmae says that "environmental analysis is the critical starting point of strategic thinking." Charles Darwin has said, "It is neither the strongest of the species that survive nor the most intelligent, but the one most responsive to change."

1.4. Definition

"It is set of those inputs to an organization which are under the control of other organizations or interest groups or are influenced by interaction of several groups, such as economy"—**Professor Paire and Anderson**

"Environment consists of all external and influence the complex interaction of the market, production and finance, the three basic components of our business world."—**Mr. J.A. King and Mr. C.J. Duggan**

"Business environment is an aggregate of all conditions, events and influences that surround and affect it. It is broad and ever changing as its separate elements, interact. A single firm's environment is narrow in scope than the total environment of business. It is complicated and continuously changing."—**Professor Keith Davis**

Notes

"An organization's external environment consists of those things outside an organization such as customers, government units, suppliers, financial firms and labour pools that are relevant to an organization's operations."—**Professor Gerald Bell**

"Every organization exists in an environment that extends beyond its formal boundaries. This external environment represents a set of conditions, circumstances and influences that surround and affects the functioning of an organization. Environment is made up of many different individuals (for example: customers, members of other organization, local citizens, organization of suppliers, civil groups, labour unions and government bodies—regulatory agencies, lagislators, local officials). It includes those people who are capable of influencing an organization and its management system, as well as those who might be affected by the organization's actions."—**Professor Randall B. Dunham and John. L.Pierce**

1.5. Nature of Business Environment

- **Complex:** Business Environment is complex in nature. It consists of several factors, conditions and events which directly influence the functioning of business.
- **Dynamic:** Business environment is a dynamic concept and keeps on changing continuously. Various factors which constitute business environment are always changing from time to time.
- **Interdependence:** Factors of business environment are dependent on each other. Business environment include economic, social, legal, technological and political factors.
- **Uncertain:** Factors which constitute business environment are uncertain. It is quite difficult to predict several future conditions because no one knows what is going to happen in nature. These factors change too frequently like changes in fashion, technology, demand and economic conditions.

1.6. Features/Characteristics of Business Environment

The following are the features of business environment:

1. **Totality of external forces:** Business environment includes all the external forces and such as it is aggregative in nature.
2. **Specific and general forces:** Business environment includes both specific and general forces. Specific forces such as investors, customers, competitors and suppliers affect business directly. General forces such as social, political, legal and technological conditions affect business indirectly.

Notes

3. **Interrelation:** All the forces and factors of business are interrelated. For example, increasing healthcare have increased the demand for health product like diet coke, fat-free oil, etc.
4. **Dynamic nature:** Business environment is dynamic in nature. It keeps on changing and is flexible.
5. **Uncertainty:** In business environment changes happen very frequently, whether in information technology or fashion industry. Business environment is uncertain as these changes are difficult to predict.
6. **Complexity:** Business environment is difficult to understand. It can be understood easily in parts but in totality it is difficult to understand. For example, to understand the impact of political, social and technological factor on change in demand and price is difficult.
7. **Relativity:** It is a relative concept. The impact of business environment differs from country to country or company to company. For example, demand for salwar suits may be high in India whereas it may be very low in USA.

1.7. Factors Affecting Environment Business and their Interactions

Dimensions or Components of business environment includes forces and factors having direct or indirect impact on the business transactions. These dimensions can be categorized into the following.

Economic Dimensions or Environment Affecting Business the successful businessman visualizes the external factors affecting the business, anticipating the prospective market situations and makes suitable plans to get the maximum with minimum cost:

1. **Market situations:** The business produces goods according to the demand. If the demand for the commodity increases, its price also increases, so the profit margin also increases. Consequently, production of the commodity should be increased.
2. **Sources of capital:** If the capital is easily available, business activities flourish. In case, capital is not available business cannot expand. This is why, during preindependence Indian business could not develop. After independence capital was made available by the government through specialized financial institutions and soft lending policies of the government. Consequently business has developed at faster rates.
3. **Income level of the masses:** In case, general income level increases in the economy, purchasing power with people increases. Increased demand induces business to produce more and grow faster. Low income level reduces purchasing power resulting in lesser production and slower economic development.
4. **Economic policies of the government:** Thee government controls the business in the interest of the public. Licencing by the government, levying excise duty, fixing price of the commodity, providing subsidy to certain industries, factory legislation, policy of nationalization, etc. affect situation, size, type and expansion of the business.

Social Dimension or Environment Affecting Business

Consumers' satisfaction is the foundation stone of successful business. Business has to produce goods according to the needs of the customers. While producing commodities, business *has to take into consideration the tradition, customs, beliefs, values, lifestyle, habits, education, thinking, behaviour and income level of the people.* Changes are must. It has to come slowly and quickly. The management should not ignore these inevitable changes.

After independence our traditions, customs, habits have been changing continuously due to expansion of education. Increase in the income level has increased the demand for television sets, fridges, scooters, cars and other goods of comforts and luxuries. There has been change in the standard of living of the people.

The competent, efficient and successful manager takes into consideration the various external and internal factors affecting business, formulates effective policies and leads the enterprise towards prosperous future. Such factors may include the following:

(*i*) The size, composition and distribution of population between males, females, rural, urban, rich and poor, etc.

(*ii*) Social customs, beliefs, values, lifestyle, behaviour of the people, etc.

(*iii*) Education level of people.

(*iv*) Social consciousness regarding corruption, pollution, status of minorities, women and media.

(*v*) Level of consumer's satisfaction.

Examples

(*i*) Attitude towards equality between male and female leads to Equal Pay for equal work for both males and females.

(*ii*) Increase in the demand for nourished food due to health consciousness.

(*iii*) Public opinion towards high prices.

(*iv*) Social consciousness about pollution problem generated by industry.

1.8. Types of Business Environment

Environment can be divided into three broad dimensions:

1. Internal Environment
2. Macro Environment (External Environment)
3. Micro Environment (Relevant Environment, Competitive Environment)

Internal Environment

Internal environment is internal to the organization and it is controllable. In brief, important internal factors are as follows:

1. **Culture and Value System:** Organizational culture can be viewed as a system of shared values and beliefs that shape a company's behavioural norms. A value is an enduring preference for a mode of conduct or an end–state. The value system of founders have a great and lasting impact on the value system of the organization. Value system not only influences the operations and behaviour, but also influences the choice of business.

Notes

2. **Mission and Objectives:** The business domain of the company. The mission and objectives of the company guide priorities, direction, of development, business philosophy, and business policy.
3. **Management Structure and Nature:** Structure is the way in which the tasks and subtasks are related. Structure is about the hierarchical relationship, span of management relationship between different functional areas, structure of top management, pattern of share holding, etc.
4. **Human Resource:** It deals with factors like manpower planning; recruitment and selection; and development; compensation, communication, and appraisal. Besides this internal environment includes corporate resources; production/operation of goods and services; finance and accounting system and methods; marketing and distribution.

External Environment (Macro Environment)

External or macro or general environment consists of factors external to the industry that may have significant impact on the firm's strategies.

Macro Environment

When we refer to environmental scanning, we usually refer just to the macro environment, but it can also include industry and competitor analysis, consumer analysis, product innovations, and the company's internal environment. Macro environmental scanning involves analyzing:

1. **Economy**
   (*a*) GDP per capita
   (*b*) Economic growth
   (*c*) Unemployment rate
   (*d*) Inflation rate
   (*e*) Consumer and investor confidence
   (*f*) Inventory levels
   (*g*) Currency exchange rates
   (*h*) Merchandise trade balance
   (*i*) Financial and political health of trading partners
   (*j*) Balance of payments
   (*k*) Future trends.
2. **Government**
   (*a*) Political climate – amount of government activity
   (*b*) Political stability and risk
   (*c*) Government debt
   (*d*) Budget deficit or surplus
   (*e*) Corporate and personal tax rates
   (*f*) Payroll taxes
   (*g*) Import tariffs and quotas

(*h*) Export restrictions
(*i*) Restrictions on international financial flows

3. **Legal**
(*a*) Minimum wage laws
(*b*) Environmental protection laws
(*c*) Worker safety laws
(*d*) Union laws
(*e*) Copyright and patent laws
(*f*) Anti-monopoly laws Notes
(*g*) Sunday closing laws
(*h*) Municipal licences
(*i*) Laws that favour business investment

4. **Technology**
(*a*) Efficiency of infrastructure, including: roads, ports, airports, rolling stock, hospitals, education, healthcare, communication, etc.
(*b*) Industrial productivity
(*c*) New manufacturing processes
(*d*) New products and services of competitors
(*e*) New products and services of supply chain partners
(*f*) Any new technology that could impact the company
(*g*) Cost and accessibility of electrical power

5. **Ecology**
(*a*) Ecological concerns that affect the firms production processes
(*b*) Ecological concerns that affect customers' buying habits
(*c*) Ecological concerns that affect customers' perception of the company or product

6. **Socio-cultural**

Demographic factors such as:
(*a*) Population size and distribution
(*b*) Age distribution
(*c*) Education levels
(*d*) Income levels
(*e*) Ethnic origins
(*f*) Religious affiliations

Attitudes towards:
(*a*) Materialism, capitalism, free enterprise
(*b*) Individualism, role of family, role of government, collectivism
(*c*) Role of church and religion
(*d*) Consumerism

Notes

(e) Environmentalism

(f) Importance of work, pride of accomplishment

Cultural structures including:

(a) Diet and nutrition

(b) Housing conditions

7. **Potential Suppliers**

Labour Supply

(a) Quantity of labour available

(b) Quality of labour available

(c) Stability of labour supply

(d) Wage expectations

(e) Employee turnover rate

(f) Strikes and labour relations

(g) Educational facilities

Material Suppliers

(a) Quality, quantity, price, and stability of material inputs

(b) Delivery delays

(c) Proximity of bulky or heavy material inputs

(d) Level of competition among suppliers

Service Providers

(a) Quantity, quality, price, and stability of service facilitators

(b) Special requirements

Stakeholders

(a) Lobbyists

(b) Shareholders

(c) Employees

(d) Partners

While scanning these macro environmental variables for threats and opportunities requires that each issue be rated on two dimensions. It must be rated on its potential impact on the company, and rated on its likeliness of occurrence. Multiplying the potential impact parameter by the likeliness of occurrence parameter gives us a good indication of its importance to the organization.

Here we will look at six broad dimensions:

Demographic, socio-cultural, political/legal, technological, economic and global.

Dimensions in External Environment

All these dimensions of general environment are interrelated. These dimensions not only influence businesses, but also influence each other. After a political change in 1991, when Congress government came to power, major economic change took place in the form of LPG, i.e.; Liberalization, Privatization, and Globalization. This led to an enhancement in the technological environment of the country. This technological and economical change has transformed the socio-culture environment of the country.

Notes

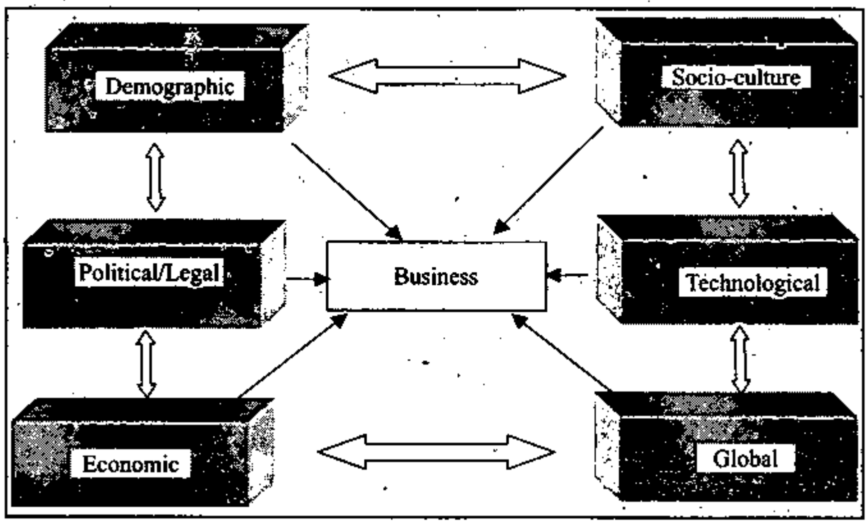


Fig. 1.1. Dimensions in External Environment

Globalization has also enabled India to become the software superpower of the world. All global organizations now have a new and vast market, as well as cheap manufacturing hub, which has compelled them to change their global marketing and manufacturing strategies.

With this, over the last ten years there has been a drastic change in the India's demography as per capita income has risen. The number of young achievers and high earners has increased drastically, which changed the entire demand schedule of products.

1. ***Political Environment:*** It is the political environment of the country which decides the fortune of the business in a country. After 1917 revolution in the USSR suddenly a political change transformed the whole equation of business. In India in 1977, Janata government came in power and because of this Coca Cola and IBM have to leave the country. Because of Janata government all liquor company had to close their operations. After the change in the regime in the USSR in late 1980s and early 1990s the whole equation of business changed in Russia. Recently when Dr. Manmohan Singh led UPA government came in power and new economic policy changed the whole definition of business in India, on the one hand it gave a bulk of new opportunities for business, on the other hand it also brought threat for inefficient organizations. Not only political philosophy but also political stability has a significance importance. The more stable will be the political environment of country, the more conducive will be the environment for business. The consensuses among various political parties on key issues are also relevant in this case.
2. ***Regulatory and Legal Environment:*** The political environment governs the legal and regulatory environment of a country. The regulatory environment plays a vital role by dictating the does and don'ts of a business. Every country has a different legal environment.

Notes

In India, we have the Companies Act that governs companies, the MRTP Act which restricts monopoly, various laws regarding shares, the Consumer Protection Act, environmental laws, and the implementation of the GATS. The GATS has resulted in the implementation of international laws regarding patents. There are also laws for import and export, licensing, etc. that have a drastic impact on business and the future of organizations.

When an NRI Lord Swaraj Paul, a British citizen, tried to take over Escorts, its owners, the Nandas approached the government to save their company. A law restricting any NRI from purchasing shares of an Indian company came into force, and Escorts was saved.

3. ***Demographic:*** It is the demographic environment which decides the marketing mix for an organization. It decides the type of product the organization comes out with. In India a lot of research and efforts are undertaken to reduce the cost of products and to launch products at the cheapest possible rates. A one rupee sachet of shampoo and a five-rupee ice-cream cone are some examples. It is the demography that decides the pricing, promotion and distribution strategies. 70% of India's population live in villages and of this, 70% are youth, which is why every business house is launching new products, specifically for rural market. The ITC launched its unique and ambitious programme called *e*-chaupal, targeted at the rural market.

4. ***Socio-culture:*** Socio-culture variables like the beliefs, value system, attitudes of people and their demographic composition have a major impact on their personality and behaviour style. The consumers' preferences have undergone a drastic change through the 1990s. This has led to the production of more cars, refrigerators, air conditioners and other articles that were at one time considered ostentatious and luxurious.

   Not only this, socio-culture paradigms also dictate the preference of consumer in different regions. For instance, companies launch different products in the south and north because of differing preferences. Companies have to change their product portfolio because of cultural preferences as McDonalds and KFC did when they launched their restaurant chain in India.

5. ***Technological:*** Technological forces present a wide range of opportunities and threats that have to be accounted for in the process of business strategy formulation. Technological advancement may dramatically affect an, "organization's products, services, markets, suppliers, distributors, competitors, customers, manufacturing process, marketing practices, financial composition, and competitive position." Some of the important factors that influence operating in the technological environment are:

   (*i*) Sources of technology like company sources, external sources and foreign sources, cost of technology acquisition, collaboration and transfer of technology.

   (*ii*) Rate of change in technology, rate of obsolescence.

(*iii*) Impact of technology on human being, the man machine system, and the environmental effect of technology.

(*iv*) Communication and infrastructural technology in management.

In fact, technology is today a decisive factor. From the FMCGs to the microprocessor industry, everybody is investing heavily in technology. The technological knowledge of a consumer also influences the decisions. Organizations have to modify products according to the level of technological knowledge of the target customer, because in developing nations complex household machines that need programming will not work. So they have to be technologically more and more focused.

Notes

6. ***Global Environment:*** The international environment consists of all factors that operate at the transnational, cross-cultural level and across the border. The world is a global village today and it is getting closer and closer as far as business is concerned.

   For the sake of business, countries are burying their grievances and forging economic relationships. Erstwhile adversaries like America and Russia are today goods friends and China and India are coming closer.

   India has signed a bilateral treaty with Sri Lanka, it is developing close economic relationship with South Africa and Brazil, and is planning to develop a road network in South East Asia. India is also a close ally of the ASEAN, and is also a signatory of the WTO which has a multilateral trade agreement among more than 100 nations.

   India is in a process of laying down a gas pipeline from Iran via Pakistan. All this is just a glimpse of the present international environment. Every new bilateral and multilateral agreement opens new vistas for business and also brings a new threat in the form of global competition.

7. ***Economic Environment:*** The economic environment consists of macro level factors related to the means of production and distribution of wealth, which have an impact on the business of an organization.

   The economic structure of a country, whether it is socialist, mixed or capitalist, has a drastic impact on the economy. Economic policies such as foreign trade policy, industrial policy, fiscal policy, the GDP growth rate, policy of licensing, monetary policy, development of financial institutions, development of money and stock market, and the extent of globalization are some of the aspects of an economy that reflect on business in an economy. A slight change in monetary policy can release crores of rupees into the economy that may result in a decrease in interest rate, which further increases investment as well as inflation.

   Also, banks' lending rates decide the level of investment in any country. The higher the interest rate, the lower the level of investment. In most industrialized nations like the US, this interest rate is between 4% and 6%. In India in 1991, the PLR (prime lending rate) was 17% to 18%, which was reduced to 8% to 10% by 2000 because of a change in the country's economic policy. The current Prime Lending Rate (PLR) with effect from Jan 01, 2009 is 14.75% p.a.

Notes

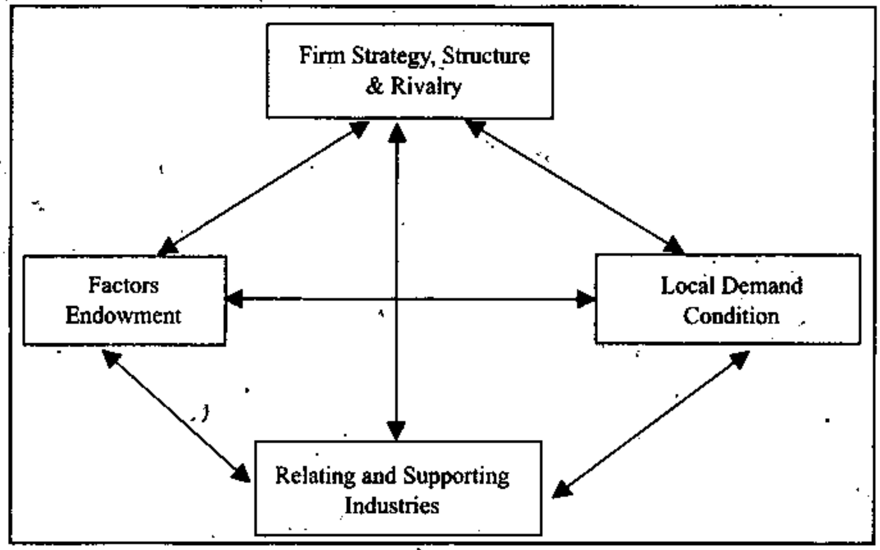


Fig. 1.2. Michael Porter's International Competitiveness Model.

8. ***National Competitive Advantage:*** Despite globalization, industrialization is clustered in a small and specific number of countries. Most successful computer and biotechnology firms are based in the US, the successful chemical and engineering industry is based in Germany, and the cream of the electronics industry is based in Japan.

   Similarly, the successful call centres are clustered in India as are many of the customized software companies. This suggests that the nation and its environment in which a company is based may have an important bearing on the competitive position of that company in the global marketplace.

In a study of national competitive advantage, Michael Porter identified four attributes of a national or country-specific environment that have an important impact on the global competitiveness of companies located within that nation.

1. **Factor Endowments:** A nation's position in the factors of production such as skilled labour, capital, technology or the infrastructure necessary to compete in a given industry.
2. **Demand Condition:** The nature of home demand for the industry's products and services.
3. **Relating and Supporting Industry:** The presence and absence in a nation of supplier industries and related industries that are internationally competitive.
4. **Firm Strategy, Structure and Rivalry:** The conditions in the nation that govern how companies are created, organized and managed and the nature of domestic rivalry.

Micro Environment

Micro environment or the competitive environment refers to the environment which an organization faces in its specific arena. This arena may be an industry, or it may be what is referred to as a strategic group.

Besides looking at primary demand and supply factors, firms examine the state of competition they face because that determines whether they will remain in the same industry or start a new one. All the business decisions—what business, pricing, distribution channel, promotion strategy, product portfolio, etc. depend on the competitive position of the firm.

Notes

For instance, a new entrant in the glucose biscuit segment will have to study and consider the marketing mix as well as strategy of existing players like Britannia, Parle, Priyagold, etc. before deciding its marketing mix. Following are the key Micro Environment factors:

The Five Forces of Competition

Professor Michael Porter of the Harvard Business School has demonstrated the state of competition in an industry as a composite of five competitive forces. According to Michael Porter the five forces of competition are:

1. ***Threat of Competitors:*** The rivalry among sellers in the industry.
2. ***Threat of New Entrants:*** The potential entry of new competitors.
3. ***Threat of Substitutes:*** Market attempts of companies in other industries to win customers over to their own substitute products.
4. ***Bargaining Power of Suppliers:*** The competitive pressure stemming from the supplier-seller collaboration and resultant bargaining.
5. ***Bargaining Power of Buyers:*** The competitive pressure stemming from seller-buyer collaboration and bargaining.

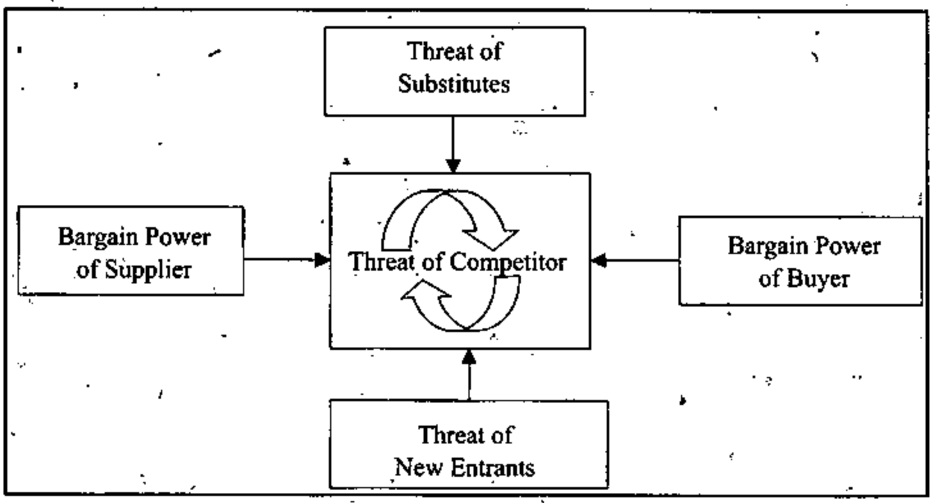


Fig. 1.3. Michael Porter's Five Forces Model

6. ***Threat of Competitors:*** When rivals compete to win over customers to improve market share or profitability, that is rivalry among competing sellers. The intensity of rivalry among competing sellers is a function of how vigorously they employ tactics such as lower prices, snazzier features, expanded customer service, longer warranties, special promotional offers; and introduction of new product. All these lead to adverse impact on the profits of the firm. Rivalry intensifies as the number of competitors increases and as competitors become equal in size and capability.

Notes

Rivalry becomes stronger when the demand for a product grows, and industry conditions tempt competitors to cut prices or use other competitive weapons to boost unit volume. Rivalry is also intensified when one or more competitors are dissatisfied with their market position and launch moves to bolster their standing at the expense of rivals, or when exit barriers are very high and it costs more to get out of business than to stay on. Sometimes, stronger companies outside the industry acquire weak firms in the industry and launch aggressive, well-funded moves to transform their newly acquired competitors into major market contenders.

Rivalry is weak when most competitors in the industry are relatively well satisfied with their sales growth and market shares. Such companies rarely make concerted attempts to steal customers away from one another, and have comparatively attractive earning and returns on investment.

7. ***The Threat of New Entrants:*** A new entrant in an industry represents a competitive threat to established firms, sometimes called the incumbents. The entrant adds new production capacity and brings substantial resources that were not previously required for success in the industry. But there are various barriers to entry that the new player has to face. These barriers are a challenge for the new entrant and a protective shield for the established player and include:

   (*i*) *Economies of Scale:* Existing large firms enjoy lower costs per unit. They have enough room to reduce prices as they may enjoy higher profits. Also, they could be selling products at such a low price that new player may not be able to produce the same output.

   (*ii*) *Cost Disadvantage Independent of Scale:* Besides economies of scale, existing firms have other many cost advantages such as proprietary product knowledge, patents, favourable access to raw material, favourable location, lower borrowing cost and government subsidies.

   (*iii*) *Learning and Experience Curve:* Established companies have the advantage of learning curve. Because of this learning curve established firms are in a better position as they have skilled and trained human resource.

   (*iv*) *Product Differentiation:* Differences in physical or perceived characteristics make an incumbent's product unique in the eyes of the consumer.

   (*v*) *Capital Requirement:* It is said the offender must have three times the power than that of the defender. Thus, an offender requires capital not only to establish a new business but also to compete with established firms. Even the cost of capital is higher for a new firm as lenders hesitate to provide capital to new entrant.

   (*vi*) *Switching Costs:* Sometimes, the costs (physical, psychological and financial) incurred in switching from one supplier to another also resist the customer from going for a new vendor.

   (*vii*) *Access to Distribution:* The middlemen are reluctant to deal with a product that is new to the market. This situation becomes more critical in industrial and international markets as there are few middlemen because they usually prefer established products.

(viii) *Government and Regulatory Environment:* Government policies like licensing, permits, broadcasting regulations, liquor policies, anti-monopoly policies like the MRTP in India and the Anti-Trust Law in America also work as a barrier for new entrants.

8. ***Threat of Substitutes:*** This refers to the market attempts of companies in other industries to win customers over to their own substitute products. For instance, a producer of scooters will compete with motorcycle makers, newspapers compete with television operators, tea competes with coffee, CD players compete with DVD players, Aspirin manufacturers compete with the makers of Acetaminophen, Ibrufen and other pain relievers. Makers of eyeglasses compete with the makers of contact lenses, road transport services compete with the railways. Strong competitive pressure from substitute products depends upon three factors:
   (i) Whether attractively priced substitutes are available.
   (ii) Whether the buyers view the substitutes as being satisfactory in terms of quality, performance, and other relevant attributes.
   (iii) Whether buyers can switch to substitutes easily.

   The presence of readily available and attractively priced substitutes creates competitive pressure by placing a ceiling on the prices an industry can charge for its product without giving customers a reason to switch to substitute and thus risk sales erosion.

9. ***The Bargaining Power of Suppliers:*** Suppliers have little or no bargaining power when there are many suppliers and supply exceeds demand. Suppliers compete with each other to grab orders. On the other hand, bargaining power is high when it comes to high technology and the supplier has an expertise, or if the supplier is working at economies of scale. The supplier has high bargaining power if he has significant cost advantage or constantly improves the product in the interest of the consumer, or finances the buyer.

10. ***The Bargaining Power of Buyers:*** Today we are living in a market-oriented economy, where consumer is king. The buyer enjoys significant bargaining power when there are many sellers, few buyers or when production capacity exceeds the demand.

The buyer can bargain for reduction of prices, quantity discount, better quality at same price, better after sales service, or even credit or finance facility. Boeing, for instance, arranges finances for its buyers. Today the consumer durables industry and the two-wheelers and automobile industry arrange finances for customers in collaboration with banks.

Besides these five forces there are many other factors, which have a direct impact on business and constitute the micro environment of business. These are:

1. ***The Sixth Force:*** According to Andrew Grove, the former CEO of Intel: "Porter's five forces model ignores a sixth force: the power, vigour and competence of complementors". Complementary products are those

Notes

products that add value to some other product. They are consumed with some other product. Because they are used together, the demand of one product depends upon the demand and availability of another product. Like, the demand of personal vehicles in a country depends upon the availability and price of fuel. Demand for personal computers depends upon the availability and affordability of user-friendly software. In fact, the business of accessories like car and motorcycle accessories, computer accessories, etc. depends upon the key product. In fact, both substitute and complementary products influence the demand for a product. Therefore, while studying the environment one should not forget complementary products because at some point of time, they can be the decisive factor for sales and profits.

2. ***Marketing Intermediaries:*** Marketing intermediaries are an important part of the micro environment. These are firms and persons, who help in distribution, promotion, selling, and provide services like consultancy. Almost every business has to take the help of these intermediaries. Sometimes they play a decisive role. Like in the FMCG business, distribution is of critical importance and there is intense competition to acquire the support of a strong distributor.

   The primary reason Coca Cola acquired Parle was to gain access to the distribution network of Parle, which was wide and penetrated. Besides this there are brokers, agents, logistics companies, private transporters, etc. which play an important role.

   There are incidences of retailers boycotting the product of particular companies because of low margins. Companies also spend a significant amount on promotion and advertising firms. For instance, companies like HLL spend as much as ₹ 800 crore on advertising as part of their marketing strategy.

3. ***Financial Institutions(FIs):*** For any business, FIs play a critical role, especially at the micro level. FIs not only make available the finance but also create an environment for investment. They also give expert opinion and consultancy to the corporate. Every corporate is dependent on FIs–whether it is banks or consultancies or NBFCs–for its financial needs. They also facilitate the mode of payment. For the industrial development of any country a well-established financial institution is a prerequisite.

   These FIs mobilize the savings of the public to the corporate world. An organization that has a good rapport with FIs usually gets finance easily and at easy terms, which makes a lot of difference in this competitive environment.

4. ***Strategic Group:*** Strategic groups are conceptually defined as clusters of competitors that share similar strategies and therefore compete more directly with one another than with other firms in the same industry. A strategic group is to identify a more defined set of organizations so that each grouping represents those with similar strategic characteristics. They are not a formal group or an association; in fact they are conceptual clusters in the sense that they are grouped together for the purpose of improving analysis and understanding of competition within their industry.

Strategic groupings look for these similarities:

(*i*) Extent of product diversity.

(*ii*) Extent of geographic coverage.

(*iii*) Number of market segment served.

(*iv*) Distribution channel used.

(*v*) Extent of branding.

(*vi*) Marketing effort.

(*vii*) Extent of vertical integration.

(*viii*) Pricing, etc.

Coca Cola and Pepsi will be considered a strategic group because both have similar products and both follow similar strategies. P&G, HLL and NIRMA can also be considered to be the same strategic group. This sort of grouping in order to analyze and understand competition is very useful. It also helps in tracing close competitors and in formatting counter-strategies.

5. ***Critical Success Factors (CSFs):*** Many industries have small but extremely important set of factors that are essential for successfully gaining and maintaining a competitive advantage. Critical success factors are those areas in which good results will help ensure an organization's success against competition and where poor results usually lead to declining performance.

   CSFs which are relevant to any company are determined by a variety of environmental and firm-specific considerations. During environmental analysis one should find out what the critical factors are for the firm. For an FMCG, distribution network is a critical success factor, for pharmaceutical companies, R&D is a factor, and for a generic product company like steel or aluminium manufacturing firms, cost is a CSF. For a food chain organization like McDonalds, logistics and supply chain management is a CSF.

6. ***Driving Force:*** Behind every change in an environment there are some driving forces and these driving forces lead to a sequential change in the environment. To understand and forecast future trends it is essential to understand the driving force behind them. In fact, sometimes changes in segment A can be the result of changes in segment B and on the other hand, to influence B one has to influence A.

   For instance, if there is a sudden rise in the sale of a certain product of an organization, it may presume this to be a result of the hard work of its salesforce, whereas it may actually because its competitor's product is in short supply.

1.9. Importance of Environment

1. **Environment is Complex:** The environment consists of a number of factors, events, conditions and influences arising from different sources. All these interact with each other to create entirely new sets of influences.

Notes

Notes

2. **Environment is Dynamic:** The environment is constantly changing in nature. Due to many and varied influences operating there is a dynamism in the environment causing it to change its shape and character continually.
3. **Environment is Multi-faceted:** The same environment trend can have different effects on different industries. As the GATS is an opportunity for some companies and threat for some companies.
4. **Environment has a Far Reaching Impact:** The environment has a far reaching impact on the organization. The growth and profitability of an organization depends critically on the environment in which it exists.
5. **The Impact of an Environmental Trend often differs significantly for Different Firm within the Same Industry:** Any change in environment may have different impacts on different firms operating in the same industry. As in pharmaceuticals industry in India the impact of new patent law will be different on research-based pharmacy companies as Ranbaxy and Dr. Reddys Lab and will be different on small pharmacy companies.
6. **The General Environment usually holds both Opportunities for, and threat to, Expansion:** Development in general environment often provides opportunities for expansion in terms of both products, and markets. For example liberalization in 1991 opened a lot of opportunities for companies and HLL took the advantage of opportunities and acquired many companies like Lakme, TOMCO, KISSAN, etc. Changes in environment also pose serious threat to entire industry, e.g., liberalization of 1991 poses serious threat to new entrants in the form of the MNC to Indian firms.
7. **Development in the General Environment Change Competitive Battle Line:** General environmental changes may alter the boundaries of an industry and change the nature of its competition. This has been the case with deregulation in the telecom sector in India. Where since the deregulation every second year new competitor emerges old foes become friends, M&A takes place with every new regulation.
8. **Many Development in the General Environment are Difficult to Predict with any Degree of Accuracy, while Others are Readily Predictable:** Macro economic development such as interest rate fluctuations, the rate of inflation, and exchange rate variations are extremely difficult to predict on a medium or long-term basis. On the other hand some trends as on demographic, income level, age can be forecast.

The process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business is know as environmental scanning

Factors to be considered for environmental scanning: The external environment consists of variety of factors. We can explain them as follows:

(*i*) *Events* are important and specific occurrences take place in different environment sectors.

(*ii*) *Trends* are the general tendencies or courses of action along which events take places.

(iii) *Issues* are the current concerns that arise in responses to events and trends.

(iv) *Expectations* are the demands made by interested groups in the light of their concern for issues.

(Aghor Kazmi, TATA McGraw-Hill, p. 118)

Notes

1.10. Environmental Analysis

Collection of Information

Analysis is done by means of a search of verbal and written information, spying, forecasting and formal studies and information system.

At first there is the gathering of verbal information, the sources of verbal information are:

1. Media, such as radio and television
2. The firm's employees such as peers, subordinates and supervisors.

Other sources of verbal information outside the firm are: Customers of the enterprise, persons in industry channel (such as wholesalers, brokers, distributors, etc.), suppliers doing business with the firm, competitors and their employees, financial executives such as bankers, stockholders, and stock analyzts, consultants and the government.

Besides verbal sources, information can be gathered by reading. Information about the environment is readily available in newspapers, trade journals, industry newsletters, journals and publications, government reports, reports of various marketing research agencies such as Gallup, ORG, etc. It is said (Is it not true?) that behind every business activity there is one government department and one association. This department or association publishes information related to business on regular intervals.

The second solution to environmental analysis is to design a Management Information System. A formal MIS gives quick relevant information to the decision makers, which helps a lot in making timely decisions. Beside this, information regarding competitors can be gathered through Corporate Intelligence and spying.

1. ***Corporate Intelligence:*** Corporate Intelligence (CI) can be described "as a technique of adopting industry/research expertise to analyze the information available on competition from public sources and to draw conclusion based on this data." A typical CI activity involves collection, organization, analysis and utilization of business-related data of competitors to make informed decisions. Some of the major companies that use CI include: Microsoft, Motorola, P&G, HP, GE, IBM and Xerox.
2. ***Spying:*** Corporate espionage can be defined as 'spying' on business competitors to acquire proprietary information such as product design, research projects, marketing plan, trade secret, source code for new software, intellectual property and research information and other business strategies. In 1996, the US government passed the Economic Espionage Act to restrict espionage.

Once GM alleged that Volkswagen had stolen its trade secret by luring its head of production. GM won the case against Volkswagen and obtained a hefty compensation.

Similarly, in 1943, a P&G employee reportedly bribed an employee of Levers Brothers to steal a bar of soap that was under development.

Notes

The approach of analyzing the environment is formal forecasting and there are various techniques to it. At present various computerized models are available to make forecasting easy and cheap. Some forecasting techniques are as follows:

Deciding Priorities

Various changes take place in the environment and it is difficult, cumbersome and a costly affair to keep a regular eye on every aspect of these changes. So it is essential for a strategist to rate the environmental factors on the basis of criticality and then invest time and resources in environmental analysis. The Nine-cell Matrix is one method of deciding priorities regarding environmental issues.

Impact on Business ←

Probability of Actions	High	Medium	Low	
High	Critical	High Priority	Low Priority	High
Medium	High Priority	High Priority	Low Priority	Medium
Low	To be Watched	Low Priority	Low Priority	Low

Fig. 1.4. Nine-cell Matrix

The issues that are critical need maximum attention of the management and quick action or preparation. On the other hand issues of low priority need just monitoring at regular intervals. Issues of high priority need attention standby plans in case and also need regular observation.

Environmental Analysis can be divided into two methods:

1. Environmental evolution.
2. The process of environmental analysis.

1. ***Environmental Evolution:*** There are three components that are useful to describe changes in the environmental segments:

   (*i*) Type of Change

   (*ii*) Forces driving change

   (*iii*) Type of future evolution.

   Changes in the micro environment may be systematic or discontinuous. Gradual changes, changes in a phased manner, or those that are predictable are systematic changes. As after liberalization, a change in the ratio of youth in population of India, rise in the income of middle class and specially of the youth can be seen as systematic change. Unpredictable or sudden changes are discontinuous, like the twin tower terror attacks in the US and its aftermath.

Notes

Sometimes changes in one segment may be the result of driving forces in another segment. The driving force behind the acceptance of packaged food in India could be because of the purchasing power of the middle class, or because more women are working, or it could be more awareness among the youth via the mass media. These driving forces constantly interact with each other.

Environmental evolution can be completely predictable and sometimes it is dependent upon actions of the firm or other entities in the environment.

2. ***The Process of Environmental Analysis:*** The process of environmental analysis can be divided into four parts:

   (*i*) Scanning the environment to detect warning signals

   (*ii*) Monitoring specific environmental trends

   (*iii*) Forecasting the direction of future environmental changes, and

   (*iv*) Assessing current and future environmental changes for their organizational implications.

   (*i*) *Scanning:* Environmental scanning is aimed at alerting the organization to potentially significant external impingement before it has fully formed or crystallized. Successful environmental scanning draws attention to possible changes and events well before occurrence, giving time for suitable action. Scanning frequently detects environmental change that is already in an advanced stage. Scanning is most ill-structured and ambiguous environmental analysis activity. The data sources are many and varied. Moreover, a common feature of scanning is that early signals often show up in unexpected places. Fundamental challenge for the analyzt in scanning is to make sense of vague, ambiguous and unconnected data and to infuse meaning into it.

   (*ii*) *Monitoring:* Monitoring involves following the signals or indicators unearthed during environmental scanning. In monitoring ,the data search is focused and much more systematic than scanning. By focused, it is meant that the analyzt is guided by a priori premonition. Systematic refers to the notion that the analyzt has the general sense of the pattern and he is looking for and collects data regarding the evolution of the pattern.

   As monitoring progresses the data frequently move from the imprecise and unbounded to reasonably specific and focused. The output or monitoring are threefold:

   (*a*) A specific description of environmental patterns to be forecast.

   (*b*) Identification of trends for further monitoring.

   (*c*) Identification of patterns requiring further scanning.

Notes

(*iii*) *Forecasting:* Forecasting is concerned with the development of plausible projections of directions, scope, speed and intensity of environment change, to lay out the evolutionary path of anticipatory change. There are a number of key analytic tasks and outputs involved in forecasting. The first one concern the untangling of forces that drive the evolution of a trend. The second one concerns understanding the nature of the evolutionary path; that is whether the change is a fad or of some duration, or cyclical or systematic in character. The third one concerns more or less clearly delineating the evolutionary path or paths leading to projections and alternatives futures. Forecasting is well focused and is much more deductive and complex activity.

(*iv*) *Assessment:* Assessment involves identifying and evaluating how and why current and projected environmental change will affect strategic management of an organization. In assessment, the frame of reference moves from understanding the environment – the focus of scanning, monitoring and forecasting – to identifying what that understanding of environment means for the organization. Assessment thus tells about the implication of environment change on the organization.

There is not always a liner relationship between scanning, monitoring, forecasting and assessment. If some trends are disclosed in scanning process an organization can directly jump to find out how it is going to influence the organization. Even after having the assessment of the external environment factor an organization may continuously monitor and forecast the factor about future development. So sometime assessment monitoring and forecasting go simultaneously. A good strategist always keeps an eye on development in environment. Like when Vijay Mallaya came to know that there is some internal problem in Chabaria (owners of Shaw Wallace) family, he started monitoring it and when he found suitable time he purchased his arch rival that is Shaw Wallace and became the second largest brewery of the world.

1.11. Summary

- Every business operates in an environment and business unit has its own environment. A change in environment gives opportunity to some and threat to some. Environment has specific characteristics, e.g., environment is complex, environment is dynamic, environment is multi-faceted, environment has a far reaching impact, the Impact of an environmental trend often differs significantly for different firm within the same industry, the general environment usually holds both opportunities for, and threat to, expansion. Developments in the general environment change competitive battle line, many developments in the general environment are difficult to predict with any degree of accuracy, while others are readily predictable.
- The environment which influences the business can be divided into three types:
  - Internal Environment
  - Macro Environment (General Environment)
  - Micro Environment (Relevant Environment, Competitive Environment).

- ***Internal Environment is all about:*** Culture and Value System, Mission and Objectives, Management Structure and Nature, Human Resource. Macro Environment deals with Political Environment, Regulatory and Legal Environment, Demographic, Socio-Culture, Technological, Global Environment, Economic Environment, National Competitive Advantage, etc.
- ***Micro Environment analysis:*** The Five Forces of Competition, The Sixth Force, Marketing Intermediaries, Financial Institution. There are various techniques of analyzing the environment. To analyze the environment the very first step is collection of information. Information can be collected in verbal and written form. There can be various sources of information such as Radio and Television, the firm's employees such as peers, subordinates, and supervisors, Corporate Intelligence, Spying, etc. Process of environmental analysis, includes the steps like Scanning, Monitoring, Forecasting and Assessment.

Macro environment scanning involves analyzing

1. Economy
2. Government
3. Legal
4. Technology
5. Ecology
6. Socio-cultural
7. Political Suppliers

1.12. Review Exercises

1. What do you mean by macro environmental factors?
2. Discuss the meaning of environmental analysis.
3. Write about nature of Business Environment.
4. Discuss the various Macro environmental factors, which can have an impact on Business.
5. Describe Micro environmental factors, which influence the business.
6. Describe the various sources of information for the environmental analysis.
7. Describe the various characteristics of environment and the process of analyzing the environment.
8. Write brief a short note on each of the following:
   (*i*) Five Forces Model
   (*ii*) Corporate Intelligence
   (*iii*) Critical Success Factors (CSF)
   (*iv*) Driving Force

Unit–2

Liberalization, Privatization, Globalization and Different Types of Economy

(LPG Policy)

Notes

Structure

LIBERALIZATION

2.1. Learning Objectives
2.2. Introduction
2.3. Definition
2.4. Features of Liberalization in India
2.5. Economic Liberalization Policy of India

PRIVATIZATION

2.6. Learning Objectives
2.7. Introduction
2.8. Definition
2.9. Features of Privatization
2.10. Process of Privatization

GLOBALIZATION

Learning Objectives
2.11. Introduction
2.12. Definition
2.13. Features of Globalization
2.14. Globalization Environment
2.15. Industrial Licensing
2.16. Consumer Movement and Consumerism

DIFFERENT TYPES OF ECONOMY

1. Capitalism Economy

2.17. Definition
2.18. Classification of Capitalism Economy
2.19. Features of Capitalism
2.20. Some More Important Features of Capitalism

2. Socialist Economy

2.21. Introduction
2.22. Definition
2.23. Meaning
2.24. Features of Socialist Economy

2.25. Socialism Environment
2.26. General Features of Socialism Economy

3. Mixed Economy

2.27. Definition
2.28. Features of Mixed Economy
2.29. Mixed Economy
2.30. Summary
2.31. Review Exercises

LPG POLICY

LIBERALIZATION

2.1. Learning Objectives

After going through this unit, you will be able to:

- Know how to increase competition amongst domestic industries.
- How to encourage foreign trade with other countries with regulated imports and exports.
- Explain enhancement of foreign capital and technology.
- Explain expand global market frontiers of the country.
- Describe diminish the debt burden of the country.

2.2. Introduction

Economic liberalization refers to a situation where inessential restrictions and controls are removed from a country's economy to ensure that businesses and enterprises can maximize their contribution. It is, however, important to note that liberalization does not mean as uncontrolled economy.

2.3. Definition

Liberalization is the process or means of the elimination of the control of the state over economic activities. It provides greater autonomy to the business enterprises in decision-making and eliminates government interference. Liberalization was begun to put an end to these limitations and open multiple areas of the economy.

2.4. Features of Liberalization in India

Following are some of the features of liberalization that was initiated as a part of economic reforms of 1991–

- Abolition of the previously existing License Raj in the country. License or Permit Raj is a complicated system of regulations, licenses, and restrictions that were imposed to run and set up businesses between 1947 and 1990.
- Reduction of interest rates and tariffs.
- Curbing monopoly of the public sector from various areas of our economy.

- Approval of foreign direct investment in various sectors.
- Economic liberalization in India integrated the above features and in general waived off several restrictions to become more private sector friendly.

Notes

2.5. Economic Liberalization Policy of India

The ongoing reforms in India are referred to as economic liberalization of India. After Independence in 1947, India adhered to socialist policies. The extensive regulation was sarcastically dubbed as the "Licence Raj"; the slow growth rate was named to "Hindu rate of growth". In the 1980s, the Prime Minister Rajiv Gandhi initiated some reforms. His government was blocked by politics. In 1991, after the International Monetary Fund (IMF) had bailed out the bankrupt state, the government of P.V. Narasimha Rao and his Finance Minister Manmohan Singh started breakthrough reforms. The new Policies included opening for international trade and investment, deregulation, initiation of privatization, tax reforms, and inflation-Controlling measures. The overall direction of liberalization has since remained the same, irrespective of the ruling party, although on party has yet tried to take on powerful lobbies such as the trade unions and farmers, or contentious issues such as reforming labor laws and reducing agricultural subsidies.

As of 2009, about 300 million people–equivalent to the entire population of the entire United Sates–have escaped extreme poverty. The fruits of liberalization reached their peak in 2007, with India recording its highest GDP growth rate of 9%. With this, India become the second fastest growing major economy in the world, next only to China. An Organization for Economic Cooperation and Development (OECD) report states that the average growth rate 7.5% will double the average income in a decade, and more reforms would speed up the pace.

Indian government coalitions have been advised to continue liberalization. India grows at slower pace than China. McKinsey states that removing main obstacles "would free India's economy to grow as fast as China's at 10 percent a year".

Indian economic policy after independence was influenced by the colonial experience (which was seen by Indian leaders as exploitative in nature) and by those leader's exposure to Fabian socialism Policy tended towards protectionism, with a strong emphasis on import substitution, industrialization, state intervention in labour and financial markets, a lager public sector, business regulation, and central planning. Five-Year Plans of India resembled central planning in the Soviet Union. Steel mining, machine tools, water, telecommunication, insurance, and electrical plants, among other industries, were effectively nationalized in the mid-1950s. Elaborate licenses, regulations and the accompanying red tape, commonly referred to as Licence Raj, were required to set up business in India between 1947 and 1990.

Notes: The impact of these the economic reforms may be gauged from the fact that total foreign investment (including foreign direct investment, portfolio investment, and investment raised on international capital markets) in India grew from a minuscule US $132 million in 1991-92 to $5.3 billion in 1995-96.

Cities like Bengalore, Hyderabad, Pune and Ahmedabad have risen in prominence and economic importance and have become centres of rising industries and destination for foreign investment and firms.

PRIVATIZATION

2.6. Learning Objectives

After going through this unit, you will be able to providing strong momentum for the inflow of FDI:

- Privatization aims at providing a strong base for the inflow of FDI.
- The increased inflow of FDI improves the financial strength of the economy. Improving the efficiency of public sector undertakings (PSUs).
- The efficiency of PSUs is improved by giving them the autonomy to make decisions.
- Some companies were given special categories of Navratna and Miniratna.

2.7. Introduction

Privatization is considered to bring more efficiency and objectivity to the company, something that a government company is not concerned about. India went for privatization in the historic reforms budget of 1991, also known as 'New Economic Policy or LPG Policy'.

2.8. Definition

The transfer of ownership, property or business from the government to the private sector is termed privatization. The government ceases to be the owner of the entity or business.

The process in which a publicly-traded company is taken over by a few people is also called privatization. The stock of the company is no longer traded in the stock market and the general public is barred from holding stake in such a company. The company gives up the name 'limited' and starts using 'private limited' in its last name.

2.9. Features of Privatization

Following are the basic features of privatization in points:

1. **New Concept:** Privatization is a new concept that has emerged in the last two decades.
2. **Universal Concept:** The concept of privatization has emerged not only in India but it has developed all over the world. Countries like USA, UK, Japan, India, etc. has adopted this ideology.

   It is a wise idea. It involves not only the transfer of the public sector to private hands but it limits government involvement in the economic activities and protects the private sector.

   Thus, it involves a large number of activities such as reduce government shares then the economic sector the expansion of the private sector.
3. **Economic Democracy:** It is a means of establishing economic democracy. It provides the cpr hance to the private sector to operate in economic activities freely.

Notes

4. **Process:** Privatization is a process which goes on continuously.
5. **Private Sector in Place of Public Sector:** The private sector is being developed in place of the public sector in the process of privatization.
6. **Reduction in State Dominance:** It is a process in which state dominance is reduced in the economic sphere.
7. **Assumption:** The privatization is based on the assumption that the private sector is more efficient in the management and control of an enterprise than the public sector.
8. **New Strategy:** It is a new strategy to face the challenges emerged in the economic sphere recently. In the process of privatization, the private sector takes the task of economic development of the country.
9. **Wide Area:** Privatization is a wide concept. It involves various activities such as denationalization, decontrol, deregulation, economic liberalization.

2.10. Process of Privatization

Privatization is the process of involving the private sector in the ownership or operation of a state-owned or public sector undertaking. In a broader sense, it connotes private ownership (or even without change of ownership) the induction of private control and management in the PSUs. Barbara Lee and John Nellis (1990) describe it thus: "Privatisation is the process of involving the private sector in the ownership of operation of a state-owned enterprise. Thus, the term refers to private purchase of all or part of a company. It covers the contracting out and privatization of management – through management contract, leases or franchise arrangement."

Privatization can take following forms:

1. **Ownership Measures:** The degree of privatization is judged by the extent of ownership transferred from the public enterprise to the private sector. It can take the following forms:
   (*a*) ***Total Denationalization:*** It is a complete transfer of a public enterprise to the private sector.

   Example: AS down in BALCO, which was acquired by Sterlite industries. Modern Foods was acquired by Hindustan Lever.

   (*b*) ***Joint Venture:*** This implies partial introduction of private ownership. The range of private ownership can vary; it can be as low as 25% and even as high as 75% or more.

   As in the case of Maruti Suzuki where earlier the majority share were with Maruti but after Liberalization, Suzuki increased its stake and became the majority stake holder.

   (*c*) ***Liquidation:*** The assets are sold to someone who may use those assets for the same purpose or for any other purpose.

   (*d*) ***Workers Cooperative:*** Here ownership of the enterprise is transferred to workers who may form a cooperative to run the enterprise.
2. **Organizational Measures:** A number of organizational measures are conceived to limit state control.

They include:

(a) ***A Holding Company Structure:*** Here, the organization is decentralized and sufficient autonomy of decision-making is given at the operative level but the government still controls decisions made at the apex level. In this way a decentralized pattern of management emerges.

(b) ***Leasing:*** The government transfers the use of assets to private bidders for a specified period. In the leasing agreement the bidder is required to be assured regarding profit sharing between the state and bidder. This is a kind of tenure ownership.

(c) ***Restructuring:*** Restructuring is of two types: financial and basic restructuring. Financial restructuring means the writing off of accumulated losses and rationalisation of capital composition in respect of debt-equity ratio. The main purpose of rationalization is to improve the financial health of the enterprise and basic restructuring is said to occur when the public enterprise decides to shed some of its activities to be taken up by ancillaries or small scale units.

3. **Operational Measures:** The objective of operational measures is to improve efficiency of the organization. Operational measures include the following measures:

(a) Grant of autonomy to public enterprise in decision-making.

(b) Provision of incentives for workers and executives consistent with increase in efficiency and productivity.

(c) Freedom to acquire certain inputs from the market.

(d) Development of proper criteria for investment planning.

(e) Permission to public enterprises to raise resources from the capital market to execute plans of diversification and expansion.

Divestiture is one of the important ways of privatization; it is a privatization of ownership through the sale of equity. It entails selling stock to the public.

Example: In India various public sector banks such as State Bank of India, Vijay Bank, etc. sold their stock to the public through IPOs.

The new industrial policy announced by the government in July 1991 emphasized the following four major to reform the public sector enterprise:

(a) Reduction in the number of industries reserved for the public sector from 17 to 8 (further reduced to 4 and then to 2) and the introduction of selective competition in the reserved area.

(b) The disinvestment of shares of a select set of public sector enterprises.

(c) They policy towards sick public sector enterprises to be the same as that for private sector.

(d) An improvement of performance through an MOU system.

4. **Dereservations:** The 1991 industrial policy reduced the number of industries reserved for the public sector from 17 to 4. The reserved sectors are:

(a) Arms and ammunition and allied items of defense equipment, combat aircraft and warships.

(b) Atomic Energy.

(c) Minerals specified in the schedule to the Atomic Energy Order, 1953.

(d) Railway Transport.

Notes

Example: Presently, only Railways and Atomic Energy are reserved areas:

GLOBALIZATION

Learning Objectives

After going through this unit, you will be able to:

- Define globalization
- Discuss globalization environment
- Explain consumer movement and consumerism

2.11. Introduction

Globalization is the free movement of goods, services and people across the world in a seamless and integrated manner. Globalization can be thought of to be the result of the opening up of the global economy and the concomitant increase in trade between nations. In other words, when countries that were hitherto closed to trade and foreign investment open up their economies and go global, the result is an increasing interconnectedness and integration of the economies of the world. This is a brief introduction to globalization.

2.12. Definition

"Globalization represents the desire to move from national to a global sphere of economic and political activity". It seeks to transform the existing international economic system into a unified system of global economics. In the existing system, national economies are the major players. In the new system, the globalized economic and political activity will ensure sustainable development for the whole world.

"Globalization is both an active process of corporate expansion across borders sand a structure of cross border facilities and economic linkages that has been steadily growing and changing." –**Edward S.Herman**

"Globalization is the process whereby social relations acquired relatively distanceless and borderless qualities." –**Baylis and Smith**

2.13. Features of Globalization

1. **Liberalization:** It stands for the freedom of the entrepreneurs to establish any industry or trade or business venture, within their own countries or abroad.
2. **Free trade:** It stands for free flow of trade relations among all the nations. Each state grants MFN (Most Favoured Nation) status to other states and keeps its business and trade way from excessive and hard regulatory and protective regimes.

3. **Globalization of Economic Activity:** Economic activities are be governed both by the domestic market and also the world market. It stands for the process of integrating the domestic economy with world economies.
4. **Liberalization of Impost-Export System:** It stands for liberating the import-export activity and securing a free flow of goods and services across borders.
5. **Privatization:** Keeping the state from ownership of means of production and distribution and letting the free flow of industrial, trade and economic activity across borders.
6. **Increased Collaborations:** Encouraging the process of collaborations among the entrepreneurs with a view to secure rapid modernization, development and technological advancement.
7. **Economic Reforms:** Encouraging fiscal and financial reforms with a view to give strength to free world trade, free enterprise and market forces.

Globalization accepts and advocates the value of free world trade, freedom of access to world markets and a free flow of investments across borders. It stands for integration and democratization of the world's culture, economy and infrastructure through global investments.

2.14. Globalization Environment

History

In the recent past, many meanings of the word 'globalization' have accumulated. *Did u know?* The word 'globalize' was first attested by the Merriam Webster Dictionary in 1944. To consider the history of globalization, some authors focus on events since 1492, but most scholars and theorists concentrate on a much more recent past.

Long before 1492, people began to link together disparate locations on the globe into extensive systems of communication, migration, and interconnections. This formation of systems of interaction between the global and the local has been a central driving force in would history.

In **325 BC** Chandragupta Maurya becomes a Buddhist and combines the expansive powers of a world religion, trade, economy, and imperial armies for the first time, Greeks (Selukas) sure for peace with Chandragupta in 325 BC at Gerosia, marking the eastward link among overland routes between the Mediterrancea, Persia, India, and Central Asia.

By **1350**, Networks of trade which involved frequent movement of people, animals, goods, money, and microorganisms ran from England to China, through France and Italy, across the Mediterranean to the Levant and Egypt, and then across Central Asia (the Silk Road) and along sea lanes down the Red Sea, across the Indian Ocean, and through the Straits of Malacca to the China coast.

Between 1492 and 1498: Columbus and Vasco da Gama travel west and east to the Indies, inaugurating an age of European sea-brone empires.

Example: In South Asia, it should be noted, the Delhi Sultanate and Deccan states provided a system of power that connected the inland trading routes of Central Asia with the coastal towns of Bengal and the peninsula and thus to Indian Ocean trade for the first time.

Notes

The commodities trade continued well into the seventeenth century, concentrating on local products from each region of the Eurasian system – Chinese silk and porcelain, Sumatra spices, Malabar cinnamon and pepper, etc. – but by the 1600s, long distance trade was more deeply entrenched in the production process. An expansion of commercial production and commodities trade was supported by the arrival into Asia of precious metals from the New World, which came both from the East and West (the Atlantic and Pacific routes – via Palestine and Iran, and also the Philippines and China). Liberalization of the 19th century is often called "The first Era of Globalization". The "First Era of Globalization" is said to have broken down in stages, beginning with the First World War, and then collapsing with the crisis of gold standard in the late 1920s and early 1930s. Countries that engaged in that era of globalization, including the European core, some of the European periphery and various European offshoots in the Americas and Oceania, prospered. Inequality between those states fell, as goods, capital and labour flowed remarkably freely between nations. The 20th century was also governed by economic nationalism. Most of the European nations followed this policy. After the Second World War economic nationalism became they key for most nations in Asia and Europe. Even nations like the US and France were not untouched with the phenomenon of economic nationalism. When the US started losing jobs because of globalization it reacted sharply. Not only this, in the 20th century itself it took various measures to protect its domestic industry like automobiles and motorcycles. It imposed quantitative restrictions on the imports of automobiles from Japan.

Similarly, when in 2006 a Britain-based NRI made a bid for Europe's largest steel maker France reacted sharply. Economic nationalism is a term used to describe policies which are guided by the idea of protecting domestic consumption, labour and capital formation, even if this requires the imposition of tariffs and other restrictions on the movement of labour, goods, and capital. It opposes globalization in many case, or at least it questions the perceived benefits of unrestricted free trade. Economic nationalism may induce such doctrines as protectionism and import substitution.

Corporations are today changing their strategies and are reorganizing their functions to cope up with the changed scenario. Whether it is their production process or location, Product strategy, Marketing, Finance, HR policies, etc. Organizations have incorporated the following changes:

Designing in Global Environment

If managing product development processes was a challenge before, it is not getting any easier as companies continue to adopt global design strategies. Global designing has cost benefits that are very attractive to today's manufacturer, but it also adds new Product Lifecycle Management (PLM) challenges and intensifies existing problem areas like that of protecting intellectual property.

Production Location Selection

Jeffrey Immelt of GE Medical Systems (GEMS), pushed for acquisitions to build up scale because for leading global competitors, an R&D-to-sales ratio of at least 8 per cent represents a significant source of scale economies. But he also implemented a production strategy that was intended to arbitrage cost differences by concentrating manufacturing operations, and ultimately, other activities – wherever in the world they could be carried out most cost effectively.

Rationalized Production

Companies produce different components or different portions of their product line in different parts of the world to take advantage of low labour costs, capital, and raw materials. This is rationalized production. In a new, global world, rationalized production is easier. Now organizations can outsource or can establish their own production units in those areas where it is more economical.

Example: GE, for instance, used Mexico as a manufacture base for labour-intensive operations. Today, Japanese are selling their cars made in America to the American consumers, while Americans are selling American cars made in Japan.

2.15. Industrial Licensing

Industrial Licensing is governed by Industries (Development and Regulation) Act 1951. It is a very effective tools used by the government to regulate private sector with the years it had become the tool of exploitation. NIP did away with licensing in a big manner.

It abolished all industrial licensing, irrespective of the level of investment, except for 18 industries related to security and strategic concern, social reasons, concern related to safety and over-riding environmental issues, manufacture of product of hazardous nature and articles of elitist consumption. Later this list was trimmed as now only for 6 items listed in Annexure II license is required. These are as follows:

List of industries for which industrial licensing is compulsory under industries (Development & Regulation) Act, 1951.

1. Distillation and brewing of alcoholic drinks.
2. Cigars and cigarettes of tobacco and manufactured tobacco substitutes.
3. Electronic Aerospace and defence equipment: all types.
4. Industrial explosives including detonating fuses, safety fuses, gun powder, nitrocellulose and matches.
5. Hazardous chemicals:
   (*i*) Hydrocyanic acid and its derivatives
   (*ii*) Phosgene and its derivatives
   (*iii*) Isocyanates and disocyanates of hydrocarbon, not elsewhere specified (example: Methyl Isocyanate)
6. Drugs and Pharmaceuticals (according to modified Drug Policy issued in September, 1994 and subsequently amended in February, 1999)
   (*i*) All areas of industrial activity excluding the areas listed in Annexure I were opened for private sector. Six items were included in this list. They are:
   (*a*) Arms and ammunition and allied items and defense aircraft and warships, Atomic Energy, Coal and Lignite, Mineral Oils, Minerals specified in Schedule to the Atomic Energy (Control of Production

and Use) Order, 1953 and Railway Transport. But today only Railway Transport and Atomic Energy and its minerals are reserved for public sector. The rest are private equity even FDI is allowed through proper procedure.

Though entrepreneurs are required to submit an Industrial Entrepreneurs Memorandum (IEM) to the Secretariat for Industrial Approvals (SIA) which acknowledges receipt.

Phased Manufacturing Programmes (PMP)

PMP have been abolished for all new industries and subsequently for all existing projects. Under PMP a concerned enterprise has to progressively replace imported material, parts and components with the material's parts, and components produced in-house or by other Indian firms.

An Investment Promotion and Project Monitoring Cell is set up in the Department of Industrial Policy and Promotion, Ministry of Industry, to provide information to entrepreneurs and to monitor progress of implementation of various projects.

Delicensing has been key feature of Industrial policy of 1991. This gave a big impetus to the investments, and employment creation in coming years.

2.16. Consumer Movement and Consumerism

The term 'consumerism' is related to the consumer movement launched in the mid-1960s by the concerns triggered by Rachel Carson and Ralph Nader's auto safety investigation and by the then US President John F. Kennedy's efforts to establish the consumer's rights to safety, to be informed, to choose and to be hears. Thus, consumerism is a movement directed to protect the consumer and ensure that the consumer gets the best return in exchange for the money he spends. Emphasizing the consumer movement, former Vice-President of India late M. Hidayatullah observed:

"Why have milk prices gone up so much? In the olden days the mothers milked the cows, the daughters set it out in pans to separate the cream, one of the sons sold it in the market. Today, the agriculture department is mobilized, cowsheds are immunized, milk is homogenized, the supplies are motorized, the dairies are organized, the milkmen are subsidized, the political leaders are energized. The result is the Indian Consumer is victimized." (Readers Digest, November, 1984)

Factors Responsible for Imbibing the Consumer Protection Movement

The International Organization of Consumers Union, Penang, has highlighted five factors that are responsible for evoking the demand for consumer protection:

1. Ever increasing complexity of legislative controls and goods
2. Altered patterns of communication
3. Need for informed participation
4. Fundamental innovations
5. Problem of development

In the India scenario the following factors can said to be the reasons for the rise of the consumer protection movement:

1. **Consumer Information Gap:** The consumer who is buying a television is not an electronic engineer. Similarly, a person buying the services of a doctor or an advocate does not know whether he is receiving the right service or not. He comes to know their worth only after communing the product or availing of the services. These things exist because of a lack in consumer information.

   They also do not have the time, interest, capacity, and competence to acquire authentic information and to make the informed decisions. They often do not understand the impact of international economics and political relations on the national economics or on the prices of oil, onion or any other products. All this creates an environment of dissatisfaction. This requires constant education of consumers by organizing consumer awareness programmes.

2. **Pattern of Communication:** The impact of alternation patterns of communication which include advertising through mass media like radio, television, newspapers and cinema, have actually towards widening on increasing the information gap. The media, which provides for information is easily manipulated by marketing experts and business stalwarts. This results in consumer exploitation, which is extenuated by the increasing impersonalization of communication structures and through the development of new technologies. In such a scenario, the consumer lands in utter confusion that increases his distress.

3. **Performance Gap:** Being influenced by the communication provided by the company, the consumer purchases products and services with certain expectations. In many cases, the quality provided and the promises made in communication or while selling do not meet his expectations. The consumer has to live with product failure almost everyday. Since the problem is manifold and arises almost daily, it is difficult for an Indian consumers to move the court for redressal of his problems. This has also given rise to the demand for better protection to the consumers all around.

4. **Absence of Informed Participation:** The absence of consultation with the consumer or of their representatives in policy formulation often results in implementation of certain decisions that adversely affect consumers. In most cases, undertakings and institutions are seen avoiding this. The absence of a clear doctrine in this regard has generated strong dissatisfaction among consumers and has created an environment in which consumerism thrives.

5. **Budget Squeeze and Inflation:** There are two factors, that contribute to the budget squeeze. The first one is increased income and the sociological forces, which have created expectations for a better lifestyle. This, in turn, demands new producers requiring new expenditure for products and services. Secondly, inflation absorbs a major portion of increased income resulting in retarding people's ability to by. It has a direct impact on the cost of living.

Notes

6. **Poverty of Consumers:** The poor and illiterate people are widespread in India. They suffer the most from frauds, excessive prices, exorbitant credit charges, and poor quality of merchandise and services. They lack education, consumer education in particular, and are unable to improve their purchase decisions. Consumer education for our country is a must for:
   (*i*) Creation of critical awareness
   (*ii*) Active consumer involvement
   (*iii*) Imbibing social responsibility
   (*iv*) Realizing ecological responsibility
   (*v*) Consumer Solidarity

DIFFERENT TYPES OF ECONOMY

1. Capitalism Economy

2.17. Definition

Capitalism or capitalist economy is referred to as the economic system where the factors of production such as capital goods, labour, natural resources, and entrepreneurship are controlled and regulated by private businesses.

In a capitalist economy, the production of all the goods and services is dependent on the demand and supply in the market that is also known as a market economy. It is different from the central planning system that is also known as a command economy or a planned economy.

The main characteristic of a capitalist economy is the motive of earning profit. The capitalist economy is also characterized by the presence of free markets and lack of participation by the government in regulating the business.

The origin of capitalism can be traced back to 18th century England that was undergoing the industrial revolution at that time. As there is no government intervention in this type of economy, it is also known as a free market economy.

2.18. Classification of Capitalism Economy

Under capitalism, all factors of production – man, machine, money and land are in individual hands. They are free to use them to earn a profit and are free not to use them if they wish. Besides free and unfettered use of property, everybody is free to take up any line of economic activity he likes and is free to enter into any contract with other fellow citizens for his profit.

In the words of *Prof. Louks*, "capitalism is a system of economic organization featured by private ownership and its use for private profit of man-made and nature-made capital."

2.19. Features of Capitalism

1. ***Right to Private Property:*** Every individual has a right to acquire property, to keep it and to pass it on to his heirs.
2. ***Freedom of Enterprise:*** This freedom implies three things:
   (*a*) Freedom of enterprise,
   (*b*) Freedom to use one's property,
   (*c*) Freedom of contract.
3. ***Freedom of Choice by Consumer:*** Every consumer enjoys a freedom of choice of the commodities and services that he wishes to consume.
4. ***Profit Motive:*** In capitalism, it is the profit motive that governs business enterprises and induces people to undertake any productive activity.
5. ***Competition:*** Producers compete with one another to capture the consumer's preferences or in selling their commodity as much as they can through advertisement, price cuts, concessions, etc. Similarly, there is a competition among the workers for jobs.
6. ***Importance of Price System:*** Capitalism is said to be governed by price. It is the price mechanism, which facilitates the functioning of capitalism. Demand and supply are decided by prices. Rather, it is a two-way relationship in the sense that it is price which decides demand and supply. So in capitalism there is a complex relationship among price, supply and demand. There is hardly any country that can be called capitalist in a true sense. Though countries like the US, UK, Japan, South Korea, etc. are called capitalist countries, they area actually examples of fixed capitalist economy. Here, the means of production are owned by private enterprises but the government directly controls and regulates the working of the economy through its monetary and fiscal policies. Once, Microsoft had to split its business into two companies because of government intervention. In the late 1970s, the American government used the quota system to save its domestic automobile industry from the threat of Japanese automobile industry. Not only America, but all capitalist countries regulate business in the national interest. That's why we can call them mixed capitalist economy.

2.20. Some More Important Features of Capitalism

Let us discuss the important features of capitalism or capitalist economy.

1. **Private property:** This is one of the most important characteristics of capitalism where private properties like factories, machines, and equipment can be owned by private individuals or companies.
2. **Freedom of enterprise:** Under this system, every individual has the right to make their own economic decisions without any interference. This is applicable to both consumers and producers.
3. **Profit motive:** The motive of earning profit is one of the most important drivers of a capitalist economy. In this system, all the companies are

looking to produce and sell their products to consumers to earn maximum profit.

4. **Price mechanism:** Under this system, the demand and supply in the market will determine the production level and correspondingly the price set for the products without any kind of involvement from the government.
5. **Consumer sovereignty:** In this system, the market is controlled by the demands of the consumer. It regulates the level of production undertaken by the companies, and the consumer is free to decide which products to purchase.
6. **Free trade:** In this system, the low tariff barriers exist that promote international trade.
7. **Government interference:** In a capitalist economy, there is no government interference in the daily activities of the business. The customers and producers are free to make their own decisions regarding any product or service.
8. **Flexibility in labour markets:** In capitalism, there is a flexibility in hiring and firing of the workforce.
9. **Freedom of ownership:** In this system, an individual can accumulate any amount of property and use it according to his will. After his death, the same property is passed on to the successors by the right of inheritance.

Advantages of Capitalist Economy

The following are the advantages of capitalism.

1. There is more efficiency is the capitalist economy as the products are produced according to the demand of the consumers.
2. There is less intervention from the government or bureaucratic interference.
3. There is better scope for innovation as companies look to obtain a major part of the market with their offerings.
4. It discourages any form of discrimination so that the trade can take place between two parties without any barriers.

Disadvantages of Capitalist Economy

1. Capitalism leads to inequalities in income
2. In capitalism, firms can get monopoly over workers and consumers.

2. Socialist Economy

2.21. Introduction

In a socialist economy, the setup is exactly opposite to that of a **capitalist economy**. In such an economy the factors of production are all state-owned. So all the factories, machinery, **plants**, capital, etc. is owned by a community in control of the State.

All citizens get the benefits form the production of goods and services on the basis of equal rights. Hence this type of economy is also known as the Command Economy.

So basically in a socialist economy, private companies or individuals are not allowed to freely manufacture the goods and **services.** And the production occurs according to the needs of the society and at the command of the State or the Planning Authorities. The market and the factors of supply and demand will play no role here.

The ultimate aim of a socialist economy is to ensure the maximization of wealth of a whole community, a whole country. It aims to have an equal **distribution** of wealth amongst all its citizens, not just the welfare of its richest companies and individuals.

2.22. Definition

Socialism is a social economic system under which the components of production are owned, administered and controlled by the people – the workers. In a socialist society, the strategic industries, services and natural resources are collectively owned by all the people. The democratic organization of the people within these industries and services is the Government. However, there are many interpretations, and in several countries socialism exists as part of a capitalist system.

Socialism is a populist economic and political system based on public ownership (also known as collective or common ownership) of the means of production. Those means include the machinery, tools, and factories used to produce goods that aim to directly satisfy human needs.

2.23. Meaning

Socialism, according to socialists in the world's advanced economies, is not the same as communism. They say that it does not mean government or state ownership. However, all communist regimes in the past and present describe their systems as socialist. In fact, the former Soviet Union was call the USSR – the Union of Soviet Socialist Republics.

According to Marxist theory, it is a transitional state in society between the overthrow of capitalization and the realization of communism.

2.24. Features of Socialist Economy

1. **Collective Ownership of Resources:** In a socialist economy, the entire foundation is based on socio-economic objectives. The welfare of the people takes precedence over the profit motive. And so all major factors and resources of production are in the ownership of the state itself. Only small farms and trading firms are kept under private ownership.
2. **Central Economic Planning:** In a socialist economy, there is always a central planning committee. This is the authority who will decide what is to be produced using the state resources. They will also decide the **quantity** and the method of production. The ultimate aim of such authority is to fulfill the socio-economic aims of the State.

Notes

3. **No Choice of Consumers:** Every coin has two sides. So in a socialist economy, every citizen is guaranteed basic goods like food, clothing, shelter, etc. But the consumers do not have absolute freedom of choice. They cannot demand the products they wish, they must choose from the products the state manufactures.

   Since there is no free market, there is no concept of preference or demand and supply. Also while every citizen will get work, he is not able to freely choose his occupation.

4. **Equal Distribution of Income:** This is one of the main features of a **socialist economy**. The setup does not allow one person to accumulate a lot of wealth. So the gap between the rich and the poor is much narrower. And all their citizens enjoy equal opportunities and facilities like education, public healthcare, etc. So there is no discrimination between different classes of people.

5. **Absence of Market Forces:** The motive here is welfare of the people. Since there is no profit motive price mechanism will not influence any product decisions. The pricing structure in a socialist economy is 'administered pricing' which is set by the planning **commission** on the basis of their socio-economic objectives.

Demerits of a Socialist Economy

Socialism is a breeding ground for corruption, red-tapism, and favouritism. The State and the Central Planning Authority hold too much of the power which they often abuse for their personal gains.

It essentially restricts the freedom of its citizens. They do not have a choice in the products they wish to buy, or the jobs they want to do. Their freedom is further curtailed by the inability to own any private property.

Every citizen has the guarantee of a job. So socialism does not promote hard work or nay creativity in its citizens.

Administered prices are not the most efficient. They are not based on market forces. Thus, economic and scientific allocation of resources is impossible in this system.

Sometimes under socialism, we end up creating state monopolies which can get very dangerous with time.

2.25. Socialism Environment

A Swedish king once remarked to his minister, "If one is not a socialist up to the age of twenty-five, it shows he has no heart; but if he continues to be a socialist after the age of 25, he has no head." Socialism is based on the philosophy of equality. It believes in a classless society. In socialism, people are supposed to work according to their capacity and get/receive according to their needs.

H. Morrison defined socialism as, "the important essentials of socialism are that all the great industries and the land should be publicly or collectively owned, and that they should be conducted (in conformity with a national economic plan) for the common good instead of private profit.".

2.26. General Features of Socialism Economy

1. ***Social Ownership of Means of Production:*** In socialism, the means of production are the property of the state and not any of private individual. The profit goes to the state exchequer.
2. ***No Private Enterprise:*** In socialism, production is to be initiated and conducted by the state, which will pay wages and other costs and keep profits to itself. However, in certain fields like agriculture, handicrafts and the cottage industry, co-operatives are allowed.
3. ***Economic Planning:*** In socialism, the state assumes control of production and distribution. It allocates the scarce resources in accordance with the central economic planning. Economic planning is closely associated with the erstwhile Soviet system and is presumed to ensure an efficient and optimum allocation of resources in the national interest.
4. ***Classless Society:*** Socialism believes in a classless society. In a socialist state, every individual enjoys equality of opportunity regardless of caste, creed, family and religion.
5. ***Consumer is not sovereign:*** Under socialism, the consumer does not enjoy sovereign rights. It is the state which decides what to supply, how much to supply, how to supply and at what price.

So consumers do not have any choice in this respect. After the October 1917 revolution, the Russians tried to establish a true socialist state. They even abolished their currency but soon had to reintroduce money.

Chain and various other states like Poland, Romania, North Korea, Cuba, East Germany, etc. also tried to establish socialism but failed. They have had to surrender to market force. Now, except North Korea, all other erstwhile communist countries have accepted the importance of private entrepreneurship and are following the mixed system of economy.

3. Mixed Economy

2.27. Definition

The term 'mixed economy' is used to describe an economic system, such as that found in India, which seeks to compromise between capitalism and socialism. In such a form of economy, the elements of government control are combined with market elements in organizing production and consumption.

Here, some planning of production is undertaken by the State directly or through its nationalized industries, and some is left to private enterprise. It means that both the socialistic sector (i.e., the public sector) and the capitalistic sector (i.e., the private sector) exist side by side and complements each other.

It can be described as a half way house between the market economy and socialism. In a mixed economy both public and private institutions exercise economic control. So, this type of economy tries to secure the advantages of both capitalism and Socialism.

2.28. Features of Mixed Economy

Notes

Some of the distinctive features of a mixed economy are:

(*a*) Co-existence of public and private sectors,

(*b*) Nationalisation of the vita Sectors such as key industries like power and oil, banking, insurance, transport, etc.

(*c*) Restriction of the holdings of property,

(*d*) Control of monopoly business of large industrial houses,

(*e*) Control over the price-system by the government

(*f*) Social control over private institutions,

(*g*) Public distribution of essential goods, and

(*h*) Development planning for achieving faster economic growth.

2.29. Mixed Economy

A mixed economy is a combination of the two extremes—socialism and capitalism. In a mixed economy both private and public sectors exist and work together in the national interest. The chief features of a mixed economy are:

1. ***Co-Existence of Public and Private Property:*** In a mixed economy, industries of the country are classified into two categories. While industries in the infrastructure and strategic sectors like mining, oils, steel, alumium, metals, public transport, defense, energy, space, etc. are under the control of the government, the private sector is allowed to operate in the rest of the industries.
2. ***Price System and Government Directives:*** In a mixed economy, price is fixed or regulated by the government as well as based on market forces such as demand and supply. In critical goods like oil, LPG and steel, the government follows administered prices (as set by the government) and market forces decide the price of other goods.

   Sometimes the government follows administered as well as market prices, where entrepreneurs are permitted to sell part of production at market prices and part of the other portion of production to the government at the prices fixed by the latter.
3. ***Government Regulates and Controls the Private Sector:*** Though the private sector is permitted in a mixed economy, it is regulated and controlled by the State. The State uses various measures like regulation, licences, permits and incentives to regulate and to decide the flow and direction of private investment. The State uses all these means so that private enterprises work in harmony with national priorities.
4. ***Consumer's Sovereignty is Protected:*** In a mixed economy, sovereignty of the consumers is protected. Consumers are free to buy commodities of their choice, and producers produce commodities of consumers' choice. The government may control the prices of certain essential commodities in the pubic interest, though. In fact, the government protects the consumer from the exploitation by private entrepreneurs.

5. ***Government Protects Labour Interest:*** : In a mixed economy, the government protects the labour class and other weaker sections from exploitation by the capitalists. We thus see that in a mixed economy, private and public sectors operate in coordination with each other, although the government regulates the private sector. Today, almost every country is a mixed economy. Either it is a mixed capitalist economy like USA and UK, or it is mixed socialist economic like China and India.

Merits of Mixed Economy

The following are the significant advantages of a Mixed Economy:

In a Mixed Economy, there is competition between public and private sectors, which ultimately results in increased efficiency and productivity.

Profit from public sector firms accrue to the government, and as a result, income inequality decreases under a Mixed Economy.

Economic activities are systematically planned in a Mixed Economy. The government plans the entire Economic system in detail.

Since Economy activities are planned, economic stability prevails in a Mixed Economy. In a Mixed Economy, goods are produced according to consumer preferences, which results in consumer sovereignty.

In a Mixed Economy, enterprises flexibility and profit incentive are critical. Due to these factors, initiative, innovative, and productivity always tend to grow.

A Mixed Economic system also prioritises social welfare.

A Mixed Economy protects individuals rights.

The Mixed Economy combines both the features of a socialist and capitalist Economy. Therefore, advantages from both sectors are present in a Mixed Economy.

For example: Absolute individual liberty is there in a diverse Economy. Again, Economic freedom can be gained too in a Mixed Economy.

An arguably Mixed Economy is the method to establish socialism in a country following peaceful and democratic ways. For example, the Economy can move towards socialism through the progressive extension of the public sector.

In a Mixed Economy, the private sector's efficient management is combined with the public sector's financial soundness. Resultantly, the country achieves a rapid rate of Economic growth. The evils of the capitalist system, such as inflation, unemployment, etc. can be removed in the Mixed Economic order. In the modern world, the objective of the government is to establish a welfare state. In the welfare state, the government aims at achieving maximum welfare for the maximum number of people. Arguably, maximum prosperity can be gained through the extension of the public sector. It is possible only in a Mixed Economic system. This one is among the most significant advantage of a Mixed Economy.

2.30. Summary

- LPG Policy:
  1. Liberalization
  2. Privatization
  3. Globalization

Notes

- Liberalization means removing unnecessary trade restrictions and making the economy more competitive.
- Objectives of Liberalization Policy
  - To increase competition amongst domestic industries.
  - To encourage foreign trade with other countries with regulated *imports* and *exports*.
  - Enhancement of foreign capital and technology.
  - To expand global market frontiers of the country.
  - To diminish the debt burden of the country.
- Privatization is considered to bring more efficiency and objectivity to the company, something that a government company is not concerned about.
- India went for privatization in the historic reforms budget of 1991, also known as 'New Economic Policy or LPG policy'.
- Feature of Privatization
  1. New concept
  2. Universal concept
  3. Economic Democracy
  4. Process
  5. Private sector in place of public sector
  6. Assumption
  7. New strategy
  8. Wide Area
- Privatization is the process of involving the private sector in the ownership or operation of a state-owned or public sector undertaking.
- Globalization is the free movement of goods, services and people across the world in seamless and integrated manner.
- Feature of Globalizations:
  1. Liberalization
  2. Free trade
  3. Globalization of Economic Activity
  4. Liberalization of import-export system
  5. Privatization
  6. Increase collaboration
  7. Economic reforms
- Industrial licensing is governed by industries (Developed and Regulation) Act 1951. It is a very effective tool used by the government to regulate private sector with the years if it had become the tool of exploitation.
- List of six industries for which industrial licensing is compulsory under industries (Development and Regulation) Act, 1951
  1. Distillation and brewing of alcoholic drinks.
  2. Cigars and cigarettes of tabacco and manufactured tobacco substitutes.
  3. Electronic Aerospace and defence equipment all types.
  4. Industrial explosives including denoting fuses, safety fuses, gun powder, nitrocellulose and matches.
  5. Hazardous chemicals
  6. Drugs and Pharmaceuticals

- The term 'consumerism' is related to the consumer movement launched in the mid-1960s by the concerns triggered by Rachel Carson and Ralph Nader's auto safety investigation.
- Factors for the rise of the consumer protection movement.
  1. Consumer Information Gap
  2. Pattern of Communication
  3. Performance Gap
  4. Absence of Informed Participation
  5. Budget Squeeze and Inflation
  6. Poverty of Consumers
- Different types of economy.
  1. Capitalism Economy
  2. Socialist Economy
  3. Mixed Economy

2.31. Review Exercises

1. What do you mean by liberalization?
2. Briefly explain the following:
   (*a*) Liberalization
   (*b*) Privatization
   (*c*) Globalization
3. Explain some main features of Liberalization in India.
4. Discuss Economic policy of India.
5. What is the process of privatization? Explain.
6. Explain the features of globalization.
7. Briefly discuss the Industrial Licensing (Development and Regulation) Act 1951.
8. Briefly explain the following.
   (*a*) Capitalism economy
   (*b*) Socialism economy
   (*c*) Mixed economy
9. Explain general features of socialism economy.
10. Give brief account of the significant advantages of a mixed economy.

Unit–3

Notes

Environment of Business

Structure

3.0. Learning Objectives
3.1. Introduction
3.2. Definitions
3.3. Meaning of Business Environment
3.4. Nature of Business Environment
3.5. Significance of Business Environment
3.6. Features/Characteristics of Business Environment
3.7. Importance of Business Environment

ECONOMIC ENVIRONMENT

3.8. Introduction
3.9. Definition
3.10. Nature of Environmental Economics
3.11. Characters Features of Economic Environment
3.12. Economic Environment
3.13. Types of Government: Political System
3.14. The World Economy: An Overview
3.15. Economic Policies
3.16. Economic Indicators
3.17. World Economic Indicators: An Overview

POLITICAL ENVIRONMENT

3.18. Introduction
3.19. Meaning
3.20. Nature of Political System
3.21. Characteristics of Political System
3.22. Political Environment
3.23. Types of Political Systems
3.24. Political Risks of Global Business
3.25. Government Encouragement of Global Business
3.26. Economic Role of Government
3.27. Need for Government Intervention in Business

SOCIO-CULTURAL ENVIRONMENT

3.28. Definition
3.29. Characteristics of Socio-cultural Environment
3.30. Variables of Socio-cultural
3.31. Socio-cultural Environment Affect Business

Notes

NATURAL AND TECHNOLOGICAL ENVIRONMENT

3.32. Introduction
3.33. Natural and Technological Environment
3.34. Definition
3.35. Meaning
3.36. Features/Characteristics of Natural and Technological Environment
3.37. Technological Environment
3.38. Defining Technology
3.39. Components of Technology
3.40. Characteristics of Technology
3.41. Types of Technology
3.42. Growth of Technology
3.43. Defining Growth
3.44. Classification of Growth
3.45. Organizational Characteristics that Facilitate the Innovative/Technological Process
3.46. The Impact of Growth of Technology on Indian Business Environment
3.47. Information Technology
3.48. Benefits of Information Technology (IT)
3.49. Operations Technology and Management of Technology

LEGAL ENVIRONMENT

3.50. Introduction
3.51. Meaning
3.52. Definition
3.53. Characteristics of a Legal Environment of Business
3.54. Legal System
3.55. Basis of Industrial Dispute
3.56. Dispute Settlement
3.57. Environmental Pollution
3.58. Pollution Control
3.59. Sources and Causes
3.60. Effects
3.61. Regulation and Monitoring by Region

GLOBAL BUSINESS ENVIRONMENT

3.62. Introduction
3.63. Definition
3.64. Meaning
3.65. Characteristics of the Global Business Environment
3.66. Summary
3.67. Review Exercises

3.0. Learning Objectives

Notes

After going through this unit, you will be able to:

- State significance of Business Environment.
- Understand nature of Environmental Economics.
- Discuss types of Political Systems.
- Know how to socio-cultural Environment Affect Business.
- Describe the impact of Growth of Technology on Indian Business Environment.
- Explain basis of Industrial Dispute.

3.1. Introduction

Business, as we know is an economic activity of generating income through buying and selling, manufacturing and rendering auxilary services to trade. Modern business is not independent. It cannot work in isolation. It is the economic and social organ of the society, so it must achieve its economic goal. It cannot ignore the interest of the society. The government of the country has also the interest in business affairs. It enact legislations, formulates business policies and controls business in the best interest of the public. Consequently, *economic, social, legal, technological and political situations constitute business environment.*

The business has got *two-dimensional relationship with the environment. On the one hand it affects the social, political and economic environment and on the other hand it is affected by country's social, political, economic and legal environment.*

The business environment these days consists of Internal, operational and general environment.

3.2. Definitions

The word 'Business Environment' has been defined by various authors as follows:

"Business Environment encompasses the climate or set of conditions, economic, social, political or institutional in which business operations are Conducted." *–Arthur M. Weimer*

"Environment contains the external factors that create opportunities and threats to the business. This includes socio-economic conditions, technology and political conditions."*–William Gluck and Jauch*

"Business environment is the aggregate of all conditions, events and influences that surround and affect it."*–Keith Davis*

"The environment of business consists of all those external things to which it is exposed and by which it may be influenced directly or indirectly".*–Reinecke and Schoell.*

"The total of all things external to firms and industries that affect the function of the organization is called business environment."*–Wheeler*

"Civilisations require challenges to survive. Thus environment also contains hostilities and dangers that may be overcome by individuals and organisations."– *Arnold J. Toynbee*

On the basis of the above definitions, it is very clear that the business environment is a mixture of complex, dynamic and uncontrollable external factors within which a business is to be operated.

Notes

3.3. Meaning of Business Environment

The word 'business environment' indicates the aggregate total of all people, organizations and other forces that are outside the power of industry but that may affect its production. According to an anonymous writer–"Just like the universe, withhold from it the subset that describes the system and the rest is environment". Therefore, the financial, cultural, governmental, technological and different forces which work outside an enterprise are part of its environment. The individual customers or facing enterprises as well as the management, customer groups, opponents, media, courts and other establishments working outside an enterprise comprise its environment.

3.4. Nature of Business Environment

The nature of business Environment is simply and better explained by the following approaches:

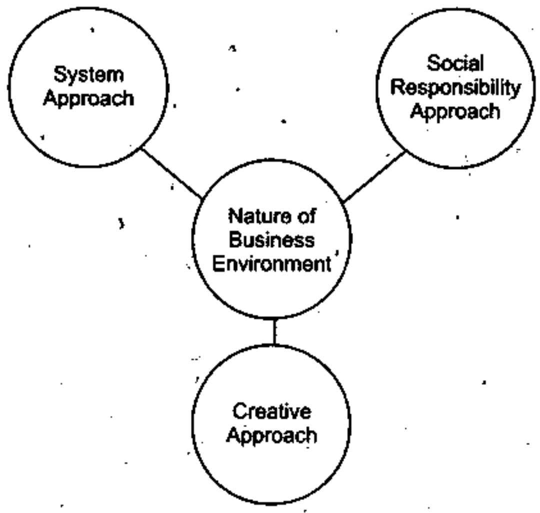


Fig. 3.1. Nature of Business Environment

(i) **System Approach:** In original, business is a system by which it produces goods and services for the satisfaction of wants, by using several inputs, such as, raw material, capital, labour, etc. from the environment.

(ii) **Social Responsibility Approach:** In this approach business should fulfill its responsibility towards several categories of the society such as consumers, stockholders, employees, government, etc.

(iii) **Creative Approach:** As per this approach, business gives shape to the environment by facing the challenges and availing the opportunities in time. The business brings about changes in the society by giving attention to the needs of the people.

3.5. Significance of Business Environment

Notes

Business Environment refers to the "Sum total of conditions which surround man at a given point in space and time. In the past, the environment of man consisted of only the physical aspects of the planet Earth (air, water and land) and the biotic communities. But in due course of time and advancement of society, man extended his environment through his social, economic and political function." in a globalized economy, the business environment plays an important role in almost all business enterprises. The significance of business environment is explained with the help of the following points:

(*i*) **Help to understand internal Environment:** It is very much important for business enterprise to understand its internal environment; such as business policy, organization structure, etc. In such case an effective management information system will help to predict the business environmental changes.

(*ii*) **Help to Understand Economic System:** The different kinds of economic systems influence the business in different ways, it is essential for a businessman and business firm to know about the role of capitalists, socialist and mixed economy.

(*iii*) **Help to Understand Economic Policy:** Economic policy has its own importance in business environment and it has an important place in business. The business environment helps to understand government policies such as, export-import policy, price policy; monetary policy, foreign exchange policy, industrial policy, etc. have much effect on business.

3.6. Features/Characteristics of Business Environment

The following are the features of business environment:

1. **Totality of external forces:** Business environment includes all the external forces and such as it is aggregative in nature.
2. **Specific and general forces:** Business environment includes both specific and general forces. Specific forces such as investors, customers, competitors and suppliers affect business directly. General forces such as social, political, legal and technological conditions affect business indirectly.
3. **Interrelation:** All the forces and factors of business are interrelated. For example: Increasing healthcare have increased the demand for health product like diet coke, Fat-free oil, etc.
4. **Dynamic nature:** Business environment is dynamic in nature. It keeps on changing and is flexible.
5. **Uncertainty:** In business environment changes happen very frequently whether in information technology or fashion industry. Business environment is uncertain as these changes are difficult to predict.
6. **Complexity:** Business environment is difficult to understand. It can be understood easily in parts but in totality it is difficult to understand. For

example, to understand the impact of political, social and technological factor on change in demand and price is difficult.

7. **Relativity:** It is a relative concept. The impact of business environment differs from country to country or company to company. For example, demand for salwar suits may be high in India whereas it may be very low in USA.

Notes

3.7. Importance of Business Environment

The competent and successful management must be capable of adapting to the environment. The knowledge of the environment helps in capitalising emerging opportunities, activating management and image building of the enterprise.

1. **It enables the firm to identify opportunities and getting the first mover advantage:** Environment friendly enterprises are the first movers to avail of the existing and emerging opportunities. These enterprises do not loose emerging opportunities to their competitors. Asian Paints have been loosing their market to Goodlass Nerolac because of their failure to match their technology with the Goodlass Nerolac. Paints industry is highly technology intensive. Goodlass Nerolac entered into tie with Kansai Paints, an internationally reputed and technologically advanced enterprise. Kansai paints provided Goodlass with Cathodic Electro Deposition (CED) technology, which helped the company to grab the opportunity of meeting 90% paint requirements of Maruti Udyog. Kansai is the supplier of paint to Suzuki Japan.
2. **It helps the firm to identify threats and early warning signals:** Besides identifying opportunities business environment is also a source of threats and warning signals. Knowledge of environment helps in identifying threats and warning signals. For example, In India foreign companies or MNC, are entering which is a warning signal. On the basis of this information Indian companies should be ready for the competition. To sustain in the market, they should improve the quality of product and should reduce the cost of production.
3. **It helps in tapping useful resources:** To get the useful resources there should be a better understanding as to what environment desires. To do any business activity resources like finance, machines, raw materials, power, water and labour etc., are required. These resources or inputs provide outputs. It helps us to select resources according to availability in environment and demand for output.
4. **It helps in coping with rapid changes:** Knowledge of environmental changes sensitises the management to make new strategy to cope with the emerging problems or changes. The turmoil in the USSR resulted in the loss of market to many companies like Hoechst. In order to meet the situation Hoechst divested its manufacturing facility in favour of IPCA Laboratories Ltd.
5. **It helps in assisting in planning and policy formulation:** Knowledge of environmental changes provides intellectual stimulation to planners

and decision-making authorities. They can do it by paying more attention to people by listening to their problems and suggestions. They can also eliminate procedural complexities in a visible way. The drastic and dynamic steps will definitely keep the company better placed.

Notes

6. **Image building:** Environmental understanding by the management builds better image of the company in the minds of the people. They feel that the company is sensitive and responsive to their needs and problems. GE is said to be image conscious. It divested its Computer and Air-conditioning business because they could not attain No. 1 or No. 2 position in the business as per their policy. Now they are sticking to outsourcing in India, aircraft engineering, plastic, etc. where they are No. 1 or No. 2.

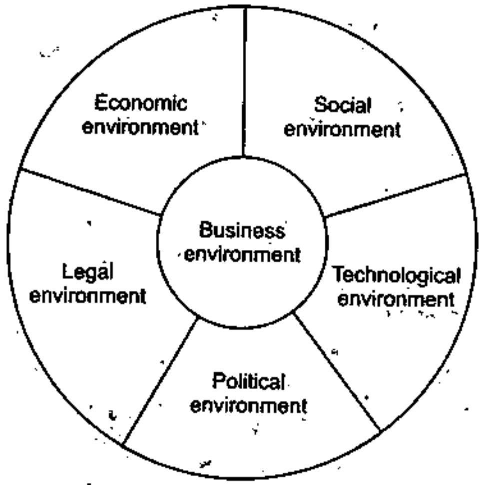


Fig. 3.2. Elements of Business Environment

ECONOMIC ENVIRONMENT

3.8. Introduction

Business is an economic activity that has and will continue to influence mankind the most. Almost every citizen of the world obtains his/her bread and butter from some sort of business. Either he himself is engaged in business or is earning because somebody else is engaged in business. A deeper analysis reveals that the basis of international relations is also business.

3.9. Definition

According to **Paul Samuelson**, "Economics is the study of how people and society choose, with or without the use of money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time and distribute them for consumption now and in the future among various persons and groups of society."

According to **Lionel Robbins**, "Economics is the science which studies human behaviour as a relationship between given ends and scarce means which have alternative uses."

3.10. Nature of Environmental Economics

Notes

There are many aspects that clearly define the nature and scope of environmental economics. The nature of environmental economics is regarded as the both positive and normative science. Furthermore, the nature of environmental economics also covers both micro and macro phase of distinctive environment problems. So, without wasting time, let's understand the nature of environmental economics.

1. **Positive and Normative Aspect:** Environmental economics is based on the scientific theories and application of welfare economics too. When it comes to the cause and effect relationship, it encompasses the positive aspect. But on the contrary, when it relates to policy measures, then it covers normative aspects. According to **B.C field**, humans are the main cause of environmental degradation as they lack moral strength.
2. **Micro and Macro Aspect:** To apprehend the concept of micro and macro aspect, let's take an instance for a clear vision.

Generally, in metropolitan cities like Delhi, people do not get fresh air to breathe. Its solution comes under the micro level of planning. Besides it, when the problem of pollution affects the economy as a whole, like, increase in temperature, then it falls under the category of macro aspect.

3.11. Characters Features of Economic Environment

1. **It is a continuous process:** Economic development is a continuous process. Every economy implements economic programs and plans for economic growth and development. A temporary increase in national income due to some special reasons does not mean economic growth and development. Development is a term of the long run and not a temporary process.

   These plans ensure better utilization of resources (whether it is human, material or financial resources) results in increasing demand and supply of goods and services which in turn increases national income.
2. **It increases national income:** Economic development results in increased per capita income which helps to increase the national income. If the income of a particular person is increasing then the national income of a country is automatically increasing.
3. **Improve the standard of living:** Since the per capita income increases, the purchasing power of an individual increase which will result in the consumption of better quality of products and services. Thus, the standard of living of an individual is raised.
4. **Economic Development utilizes national resource property:** In this *features of economic development*, it helps to ensure better utilization of national resources with the help of economic growth and economy can exploit the natural resources, human resources, and the **physical resources** to the fullest potential.
5. **It results in a high degree of structural transformation:** Economic development is resulted in the high degree structural transformation from

agriculture to manufacturing and finally the emergence of the service sector. Agriculture which was the dominant occupation nowadays is replaced by services contributing to more than 50% of the national income.

6. **Results in social economic equality:** Economic development has resulted in social and economic equality in status, opportunity, wealth, income, profits, and standard of living.

Notes

3.12. Economic Environment

The impact of business is so pervasive that besides judicial and administrative the third important work any government has to perform, is to regulate business in the national interest. Whether political interests precede or follow economic interest is a debatable issue. A change in the government or change in the system can change the fate of an organization. Behind every political decision there may be economics and behind every economic decision, politics may be a factor.

It is difficult to say whether the Iraq war is a political issue or an economic one because of the oil factor. It is also equally difficult to say with certainty that China is coming closer to India because it realizes India's political importance or because of our growing economy. If we look at world politics and economics, we find that they are two sides of the same coin and at any given point it is very difficult to determine which affects the other.

If we have a look at the events in the erstwhile USSR, we notice a close-knit relationship between politics and economics. Because of pathetic economic conditions and prevailing starvation among the common people, Russia rose in revolt. Thus, economic conditions resulted in a political revolt and a change in government. The new government believes in an entirely different ideology of communism imposed a communist economic system there. Therefore, because of political changes the entire economy of the USSR underwent a change. So in order to understand economics, One should first understand the political systems of the world.

The economic systems of a country provide another basis for classification of the type of government. These systems serve to explain whether businesses are privately owned or government owned, or if there is a combination of private and government ownership. Basically three systems can be identified: Communism/ Socialism, Capitalism, and Mixed Economy.

3.13. Types of Government: Political System

A knowledge of the form of government can give a useful insight in appraising the political climate. The Governments can be classified as Parliamentary or Absolutist.

Parliamentary government consult with their citizens from time to time to learn about their opinion and preferences. Most industrialized nations and all democratic nations can be classified as parliamentary.

The absolutist system includes monarchies and dictatorships. In an absolutist system the ruling regime dictates government policy without considering citizens' needs or opinion. Libya, Saudi Arab, Brunei and Bhutan are instances of absolutist regime. The United Kingdom and Japan are good examples of constitutional hereditary monarchy where despite the monarch the government functions according to parliamentary democratic model.

Notes

Some nations like the former USSR, China and North Korea have some form of elections and even mandatory voting but are not recognized as parliamentary because the ruling party never allows any alternative at the ballot.

Governments can also be classified on the basis of the number of political parties. It can be two-party, multiparty, single party and or dominated by one party. In a two-party system only two parties dominate national politics as one rules and the other sits in opposition, although other parties are allowed. The United Kingdom has a Labour Party and a Conservative Party and the USA has the Republican Party and the Democratic Party.

In a multiparty system there are several parties with none of them is strong enough to gain the control of the government. There are large as well as smaller parties in India, Germany, France, etc.

In a single party system, there may be several parties but one single party holds the power and gains of the government. In India, in 55 years of constitutional history, it was the Congress that ruled India for almost 45 years.

In a dominant one-party system the dominant party does not allow any opposition, resulting in no alternatives for the people. The former USSR and Cuba are good examples of this type of system.

3.14. The World Economy: An Overview

Emerging economies are smaller than the developed countries – but they are growing faster and opening up, leading to greater investment opportunities than ever before.

World GDP

World GDP, also known as world gross domestic product or GWP – gross world product, calculated on a nominal basis, was estimated at $65.61 trillion in 2007 by the CIA World Factbook. While the US is the largest economy, growth in world GDP of 5.2% was led by China (11.4%), India (9.2%) and Russia (8.1%). Throughout the twentieth century the United States of America has dominated world gross domestic product, or World GDP.

In 2007, according to the International Monetary Fund, the US GDP was $13.8 trillion. Since rising from the ashes of World War II, Japan has become the second largest world economy, with a GDP of $2.4 trillion.

Germany is Europe's largest economy and the third largest in the world, with an annual gross domestic product of $3.2 trillion.

China is close behind Germany at $3.2 trillion, and due to overtake it soon. If current growth rates continue, China will become the largest economy in the world somewhere between 2025 and 2030. The United States will be pushed down to second spot. At that time, three out of the four largest economies in the world will be Asian – China, India and Japan.

Notes

The United Kingdom and France are currently at fifth and sixth spots respectively. UK GDP for 2007 was $2.8 trillion and for France the amount stood at $2.6 trillion. European countries round out the next two spots in the GDP list. Italy is seventh with a GDP amount of $2.1 trillion and Spain is eighth with $1.4 trillion. Five out of ten top world economies are European.

Canada and Brazil are also in the Top 10 World GDP List: Canada with GDP of $1.4 trillion and Brazil with $1.3 trillion.

Just outside the top 10, Russia has made significant economic progress in the recent years after the Soviet Union was divided into several countries. In 2007, Russian GDP stood at $1.3 trillion. India is close behind at $1.1 trillion.

South Korea is staking its claim to importance by becoming the world's 12th biggest economy, and the fourth biggest in Asia, with a GDP just under $1 trillion.

Australia has been booming off the back of an extended run-up in the prices of commodities, and is now the world's 13th biggest economy with a GDP of $908 billion.

Boosted by the North American Free Trade Agreement (NAFTA), Mexico has been powering forward with its GDP reach $893 billion. The gross domestic product of the Netherlands in 2007 was $769 billion and Turkey stood at $663 billion.

There are two methods of GDP calculation: One is, nominal GDP attempts to compare countries using current exchange rates to give an assessment of their clout within the global market. Purchasing Power Parity or PPP GDP, on the other hand, tries to take into account that one dollar can buy more in some countries and less in others. It is a better gauge of the internal size of each market.

In the nominal GDP method, we can see that the developed world leads the pack, but that China has already broken into this exclusive club.

When we look at PPP GDP, China, India, Brazil and Russia are all within the top 10.

Table 1: Top 10, as listed by PPP GDP

Ranking	Country	Approximate GDP – Purchasing power parity
1	United States of America	$13,860,000,000,000
2	China	$7,043,000,000,000
3	Japan	$4,305,000,000,000
4	India	$2,965,000,000,000
5	Germany	$2,833,000,000,000
6	United Kingdom	$2,147,000,000,000
7	Russia	$2,076,000,000,000
8	France	$2,067,000,000,000
9	Brazil	$1,838,000,000,000
10	Italy	$1,800,000,000,000

This map from the CIA World Factbook will help to illustrate the differences between calculating world GDP figures on a PPP or nominal basis.

A sectoral analysis of country GDP allows us to understand the paradigm shift now occurring within most world economies. Growth patterns generally show a shift from agriculture to manufacturing and ultimately to the services sector.

Notes

The following Table 2 shows the percentage of GDP contributed by each sector in the top ten economies of the world:

Table 2: Percentage of Contribution by Top 10 Economies

Country	Contribution of services sector in GDP (estimated for 2007)	Contribution of industrial sector in GDP	Contribution of agricultural sector in GDP
United States of America	78.5%	20.6%	0.9%
China	39.5%	49.5%	11%
Japan	73.3%	25.2%	1.5%
India	55%	28.4%	16.6%
Germany	69.5%	26.9%	0.9%
United Kingdom	75.5%	23.6%	0.9%
Russia	56.3%	39.1%	2.6%
France	77.3%	20.7%	2%
Brazil	64%	30.8%	5.1%
Italy	69.3%	32%	5%

The growth rate of these economies is also an important factor, and is directly related to the overall development of a specific economy. Group of Seven Countries such as the United States, France, Italy and the United Kingdom, all typically have smaller growth rates – usually in the region of about 2% per annum.

By contrast, emerging economies such as India and China have growth rates of around 8% to 11%, while the 'new' emerging economies may experience even more blistering growth rates. Developed countries have already reached a saturation point, and thus expand less than emerging economies, where possibilities and opportunities are ripe, investors are ready to take risks, and consumers demand more goods and services than ever before.

3.15. Economic Policies

Economic policies formulated and implemented by the government impart business in different ways. Almost every business is influenced by some or the other economic policy. Important economic policies are Fiscal Policy, Trade Policy, Foreign Exchange Policy, Monetary Policy, Foreign Investment and Technology Policy, etc. are some important economic policies.

1. **Fiscal Policy:** Fiscal policy is a statement of government's source of income and its expenditure. The government's expenditure directly or

indirectly begets business for many and its taxes reduce the profits and income of many. Fiscal policy touches every walk of life of the people of the nation. Fiscal policy influences the decisive forces of economics– demand, supply, disposable income of people, savings rate, etc.

Notes

2. **Monetary Policy:** Monetary policy determines the supply of currency in the economy. Through the supply of money, monetary policy regulates the interest rates and inflation, thus in a nutshell it influences every business.
3. **Industrial Policy:** Industrial policy defines the scope and role of different sectors like private, public, joint, and cooperative or large, medium, small and tiny. Industrial policy can influence the level of industrial activity, location of units, product portfolio, total production level, capacity utilization, capacity expansion, financial policies, diversification in different areas, i.e., further investment, investment in R&D, investment overseas, etc.
4. **Foreign Trade Policy:** The foreign trade policy not only influences the business of importers and exporters but in fact today it affects all business. We are living in an era of globalization where import duties are reducing steadily and the country is signing an increasing number of Free Trade Area Agreements. This means tariff on most of goods will reduce to 0% among the signatories.

   All this is changing the rules of trade. As reduction in tariff begets new opportunities in terms of exports, it also proves to be a threat because cheap imports can be detrimental to the Indian industry. Reduction in tariff on toys has almost killed the Indian toy industry. A liberal foreign trade policy compels the organization to work on its product portfolio, quality control and costs to stay in competition.
5. **Foreign Exchange Policy:** Exchange rate policy is crucial to business. Foreign exchange policy is also a tool in the hands of the government to influence international trade. Prior to liberalization it was the government which used to control the Foreign Exchange rate. But after liberalization, the rupee has been made convertible on current account. Thus, it is now the market forces, that decide the exchange rate.

   But even today, the RBI influences Foreign Exchange through open market operation. It is important to know that any appreciation in the value of currency will have adverse impact on exports while devaluation will encourage exports.
6. **Foreign Investment and Technology Policy:** Foreign investment and the technology policy influence foreign investment and technology inflow into the country. An open policy to FDI (Foreign Direct Investment) changes the whole equation of business. On the one hand FDI boosts the level of economy as it improves infrastructure, improves the level of technology, product portfolio, exports, development and training, etc.

FDI provides the opportunities to Indian companies to learn and implement international best practices. Consumers are at advantage as products of international standards are now available to them.

But FDI also proves to be a threat to many organizations as they sometimes have to close their operations because of inflow of foreign capital into the sector they are working in.

3.16. Economic Indicators

Notes

Economic indicators (or business indicators) are statistics about the economy. These allow analysis of economic performance and predictions of future performance. These include various indices, earnings reports, and economic summaries, such as unemployment, housing starts, Consumer Price Index (a measure for inflation), industrial production, bankruptcies, Gross Domestic Product, broadband internet penetration, retail sales, stock market prices, and money supply changes. Economic indicators are primarily studied in a branch of macro-economics called "business cycles". The leading business cycle dating committee in the United States of America is the National Bureau of Economic Research.

The Bureau of Labour Statistics is the principal fact-finding agency for the US government in the field of labour economics and statistics. Other producers of economic indicators include the United States Census Bureau and United States Bureau of Economic Analysis. Economic indicators fall into three categories: leading, lagging and coincident. Coincident indicators are those which change at approximately the same time and in the same direction as the whole economy, thereby providing information about the current state of the economy. Personal income, GDP, industrial production and retail sales are coincident indicators. A coincident index may be used to identify, after the fact, the dates of peaks and troughs in the business cycle.

World economic indicators are specific indices and measures that indicate not only the overall health of the global economy, but also provide some insight into its future. Economic indicators can be found in many different forms.

Some use economic statistics that illustrate the ups and downs of particular trends in economic activities. The most commonly used world economic indicators are: rates of inflation, the unemployment rate, the real GDP growth rate, GDP-Per Capita, GDP-Purchasing Power Parity, amounts of foreign direct investment, populations living below the poverty line, and current account balances.

3.17. World Economic Indicators: An Overview

To understand the utility of economic indicators, it is first important to know how they are related to the economic activities of the world. An indicator is said to be procyclic if it moves in the direction of the economic movement (or cycle) of a country. This means that the movement of the economic indicators is directly proportional to the trend of economic performance. If economies show a growing trend, the value of the procyclic economic indicators also increases. Gross Domestic Product is an ideal example of this type of world economic indicator. Counter-cyclic economic indicators are inversely related to economic performance. The rate of unemployment is an example of a counter-cyclic type of economic indicator. If the economy slows down, the rate of unemployment increases.

Besides these two economic indicators, another type of world economic indicator is known as an acyclic economic indicator. However, this type of economic indicator is not directly related to the economic health of the country. Because of this, acyclic indicators are not a good method by which an economy's health may be measured.

Notes

Statistics such as GDP figures, unemployment rates, current account balances, stock market values and the like are economic indicators used on a monthly, quarterly or even on an immediate basis. Rates of unemployment are usually released every month, whereas the GDP figures are made available only on a quarterly basis. In the case of the Dow Jones Index, its figures are instantly available.

The quality – and thus the value – of the economic indicators depends on the accuracy with which they predict the forthcoming changes in economic activities. The best world economic indicators are those that foreshadow economic changes that are going to take place in a near future. These leading economic indicators come in handy for investors because their investment decisions often greatly depend on the economic fluctuations of the country.

Lagging world economic indicators, on the other hand, only respond to the changes of the economy a few quarters later. The unemployment rate is one such example.

Unlike the leading and lagging economic indicators, a third category of indicators is the coincident economic indicators – these indicators move in the same pace with the changes in an economy.

POLITICAL ENVIRONMENT

3.18. Introduction

The critical concern Political environment has a very important impact on every business operation no matter what its size and area of operation are. Whether the company is domestic, national, international, large or small, political factors of the country it is located in will have an impact on it. And the most crucial and unavoidable realities of international business are that both host and home governments are integral partners. Reflected in its policies and attitudes towards business are a government's idea of how best to promote the national interest, considering its own resources and political philosophy.

3.19. Meaning

Political Environment is the state, government and its institutions and legislations and the public and private stakeholders who operate and interact with or influence the system. The political atmosphere should be good and very stable for a firm to operate successfully. Political Environment forms the basis of business environment in a country.

If the policies of government are stable and better then businesses would get impacted in a positive way and vice versa. Changes in government often results in changes in policy.

Political Environment forms an important part of a company's strategy in terms of PESTEL (Political, Economic, Social, Technological, Environmental, Legal) analysis.

Notes

3.20. Nature of Political System

In our modern times no political system can be either permanent or stable. If that becomes so, that is bound to degenerate itself and can conveniently be placed under the category of a stale or degenerated system. Such a system is bound to create many lags in socio-economic systems as well.

In fact, with the coming of awakening in every section of society all over the world, the systems have rapidly started changing and new systems are quickly attracting the attention of the people. It was a time when feudal system prevailed all over the world and that was gladly accepted by the people. It then became a way of life.

But as the time passed religion became very powerful and even feudal lords accepted supremacy and authority of religious leaders. With the passing of time people became more conscious and demanded their share in the running of administration of their own country. As is well known the old system always tries to persist and resist every change.

The forces of status quo do not wish to disturb the existing order, as that does not suit to their interests. Each change is very likely to push the existing elites in the background and create a set of new elites who in all probabilities challenge the dominance of the existing elites in all walks of life.

This is what exactly happened with the religious elites with the passing of time. They too had to bow before the democratic system which became more and more popular. A society professing democracy in political and social as well as economic system began to be considered as the most advanced one It is a known fact that western world fought two world wars in a bid to save democracy.

3.21. Characteristics of Political System

Main characteristics of political system are as follows:

1. A political system is a set of intersections abstracted from the totality of social behaviour, through which values are allocated for a society.
2. There are certain properties common to both natural and social systems. Like natural systems, social systems possess properties that enable them to cope with the words—types of disturbances to which they may be subjected.
3. Political system is not a static but a dynamic affair.

   It is on account of the feedback mechanism that the system persists even though everything associated with it may change continuously and radically.
4. Political system is an open system amenable to the influence of environmental factors. It can be distinguished from other systems by boundary lines..

Notes

Outside and beyond the political system there are other systems or environments that may be distinguished from each other.

5. The environment of a political system may be intra societal as well as extra-societal.
6. A political system always remains subject to challenges from forces, operating in the environment, which is required to cope with. Easton calls such forces as stresses that constitute the response mechanism of the political system.

   The stresses are of two kinds—demand stress and support stress.
7. Political system may be in a steady state if there is proper balance between inputs and outputs.

   Inputs are demands made upon the political system and the support of the system itself; Supports are those processes or structures which give if the capacity to cope with the demands made upon it.

   Outputs are the results of the processing of demands.

   There may be with inputs as the demands made by the political elites themselves.
8. A political system lives in a critical range— inputs have an overload.
9. The survival of a political system requires certain structural bases that may be in the form of institutional arrangements like electoral machinery and political parties and non-institutional arrangements in the form of political beliefs and attitudes of the people.
10. The political system apart from being a system in itself, consists of sub-system (mediating groups) involved in the decision-making process, what Easton calls Para political system.

3.22. Political Environment

A government controls and restricts a company's activities by encouraging and offering support or by discouraging and banning or restricting its activities depending on the government. Here, there are some steps in international law. International law recognizes the right of nations to grant or withhold permission to do business within its political boundaries and control its citizens when it comes to conducting business. Thus, political environment of countries is a critical concern for the international marketer and he should examine the salient political features of global markets they plan to enter.

Sovereignty of Nations

From the international law's point of view a sovereign state is independent and free from external control; enjoys full legal equality; governs its own territory; selects its own political, social, economic systems; and has the power to enter into agreements with other nations. It is an extension of national laws beyond a country's borders that much of the conflict in international business arises. Nations can and do abridge specific aspects of their sovereign rights in order to co-exist with other countries. Like the European Union, North American Free Trade Agreement (NAFTA) is an example of nation's voluntarily agreeing to give up some of their sovereign rights in order to participate with member nations for common, mutually beneficial goals.

Notes

The ideal political climate for a multinational firm is a stable and friendly environment. Unfortunately, that is never really the case, it's not always friendly and stable. Since foreign businesses are judged by standards as variable as there are nations, the friendliness and stability of the government in each country must be assessed as an ongoing business practice.

Stability of Government Policies

The most important of the political conditions that concern an international business is the stability or instability of the prevailing government policies. Political parties may change or get reelected but the main concern for MNCs is the continuity of the set rules or code of behaviour regardless of the party in power. A change in the government does not always mean change in the level of political risks. In Italy, the political parties have changed 50 times since the end of World War II but the business continues to go on as usual in spite of the political turmoil. In comparison in India, where the government has changed 51 times since 1945, much of the government policies remain hostile to foreign investments. Conversely, radical changes in policies towards foreign business can occur in the most stable of the governments. Some of the African countries are among the unstable with seemingly unending civil wars, boundary disputes and oppressive military regimes. Like one of the regions with the greatest number of questions concerning long-term stability is Hong Kong as since China has gained control, the official message is that nothing will change and thus everything is seemingly going smoothly but the political analyzts say that it is too early to say how will the business climate change, if it will. If there is potential for profit and if given permission to operate within a country, MNCs can function under any type of government as long as there is some long-term predictability and stability.

Political Parties

Particularly important to the marketer is the knowledge of all philosophies of all major political parties within a country, since anyone might become dominant and alter prevailing attitudes. In those countries where there are two strong political parties where usually one succeeds the other, it is important to know the direction each of the parties is likely to take. Changes in direction a country may take towards trade and related issues are caused not only by political parties but also by politically strong interest groups and factions within different political parties, which cooperate to affect trade policies.

3.23. Types of Political Systems

Democracy

Democracy is *for the people, by the people, and of the people.* It is similar to participative management, in this system people are encouraged to participate in decision making, a people's representative can be selected by the people through a process of election, and the responsibility of leading the nation is kept on the shoulders of the elected representative, e.g., India.

Dictatorship

Notes

It is also called as authoritarianism, which is quite opposite to democracy. Here the whole power is in the hands of the leader, and people should follow the leader, all the policies related to economy, business, etc. are governed by the leader, e.g., Saudi Arabia.

3.24. Political Risks of Global Business

Confiscation

The most severe political risk is confiscation, which is seizing of company's assets without payment.

Expropriation

Which requires reimbursement, for the government seized investment.

Domestication

Which occurs when the host country takes steps to transfer foreign investments to national control and ownership through series of government decrees. A change in the government's attitudes, policies, economic plans and philosophies towards the role of foreign investment is the reason behind the decision to confiscate, expropriate or domesticate existing foreign assets.

Assessing Political Vulnerability

Some products are more politically vulnerable than others, in the sense that they receive more government attention. This special attention may result in positive or negative actions towards the company. Unfortunately there are no absolute guidelines for the marketers to follow whether the product will receive government attention or not.

Politically Sensitive Products

There are some generalizations that help to identify the tendency for products to be politically sensitive. Products that have an effect upon the environment exchange rates, national and economic security, and the welfare of the people are more apt to be politically sensitive. For products judged non-essential the risk would be greater, but for those thought to be making an important contribution, encouragement and special considerations could be available.

Forecasting Political Risks

A number of firms are employing systematic methods of measuring political risk. Political risk assessment can:

- Help managers decide if risk insurance is needed.
- Devise the intelligence network and an early warning system.
- Help managers develop a contingency plan.
- Build a database of past political events for use by corporate management.

- Interpret the data gathered and get forewarnings about political and economic situations.

Reducing Political Vulnerability

Notes

Even though the company cannot directly control or alter the political environment, there are measures with which it can lessen the susceptibility of a specific business venture.

Good Corporate Citizenship

A company can reduce its political vulnerability by being a corporate citizen and remembering:

- It is a guest in the country and should act accordingly.
- The profits are not its sole, the local employees and the economy of the nation should also benefit.
- It is not wise to try and win over new customers by totally Americanizing them.
- A fluency in the local language helps making sales and cementing good public relationships.
- It should train its executives to act appropriately in the foreign environment.
- Strategies to lessen political risks..

MNCs can use other strategies to minimize political risks and vulnerability.

They are:

- Joint ventures
- Expanding the investment base
- Marketing and distribution
- Licensing
- Planned domestication.
- Political payoffs

3.25. Government Encouragement of Global Business

Foreign Government Encouragement

Governments also encourage foreign investment. The most important reason to encourage investment is to accelerate the development of an economy. An increasing number of countries are encouraging investments with specific guidelines towards economic goals. MNCs may be expected to create local employment, transfer technology, generate export sales, stimulate growth and development of the local industry.

National Government Encouragement

The US government is motivated for economic as well as political reasons to encourage American firms to seek opportunities in the countries worldwide. It seeks to create a favourable climate for overseas business by providing the assistance that helps minimize some of the troublesome politically motivated financial risks of doing business abroad.

3.26. Economic Role of Government

Notes

The economic role of government can best be defined by a classification of its economic policy aims. Broadly speaking, the political choices made by electorates in Western-type democracies influence governments to perform four functions.

The first is production of services which private firms are either unwilling to produce or for some reason are not allowed to produce (or at least not exclusively). This public provision may be to provide immediate benefits (e.g., defence; law and order) or deferred benefits (e.g., investment in roads).

These 'production' activities may be divided into two types:

- Services which are not sold in the market but are financed out of compulsory levies. It is considered preferable in economic analysis to treat the government here as a collective consumer in a position to influence the allocation of resources, rather than as a producer because the 'output' is intangible and is not priced. For our purposes, what is important is that the government has to purchase in the market the current output of private firms and the labour services of households in order to fulfil its task. It can, of course, 'rig' the market. For example, the UK government is not only an important purchaser of vehicles for use in government departments; it also buys almost exclusively only vehicles produced in the India.
- Goods produced and sold in the market by public corporations. Many countries have state-owned fuel and power industries whose operation is very similar to private industry though the policy instructions laid down by the governments for their operation will usually include objectives other than the making of profits.
- The second function is the alteration of the structure of private production in order to conform with some conception of the allocation of resources which is considered 'better' than that resulting from private market transactions. This aim has already been illustrated in the example given in. In the national accounts, this aim will be reflected in the choice of taxes levied on goods and services (e.g., taxes on expenditure), in corporation taxes and in current subsidies.
- The third function is to intervene in the distribution of inoome generated by private market transactions in order to conform with some acceptable criter of equity, for example a minimum income guarantee. This will be reflected in the national accounts principally in the choice of taxes and in the provision of transfer payments to households against which there is no counterflow of current services. For example, state pension payments are transfer payments, and though pensioners do not render current services in order to receive them, they may have contributed to their finance through compulsory levies on their past incomes. Transfer payments do not form a direct link between government and industry but major efforts by the government to alter income distribution have considerable influence on the structure of household purchases and therefore on the pattern of demand for industrial products.
- The fourth function is the stabilization of the economy by attempting to reduce fluctuations in income and employment and to control movements in the general price level. The effects of this action can be seen in both volume and mix of transactions between the government and the rest of the economy.

Policy models of the economy which place particular emphasis on the control of the money supply and interest rates will pay close attention to the size of the government budget deficit/surplus. Therefore, no particular transaction with the private sector is solely identified with this function except perhaps for the interest paid by the government to firms and households as a payment for holding government debt accumulated in the course of financing past government deficits.

Notes

Budget

Every year democratic countries present, for the approval of their parliaments, a budget alongside which there will be published extensive information on the central government's finances, including accounts of past years. In this respect governments have to achieve certain standards of accountability and audit. It is taken for granted here that these standards are being met and this enables us to concentrate on the method of presentation of accounting data by the government which gives us the best idea of its structure and size in relation to the rest of the economy. While accounting and audit standards will require the government to produce full information on the responsibility of each main administrative unit for its use of authorized funds, what is needed here is an economic classification which enables us to identify government transactions which have their counterpart in receipts and payments of other major sectors of the economy, presents such a classification is a typical extract from data supplied by governments when they put forward the annual budget. While considering the government's place in the economy and its impact on business, the following checklist of questions should be applied.

Place of Government in the Economy

First, always check which definition of government is being used, for it can make a considerable difference to the perspective gained about government's role in the economy. In the example given, both central and local governments are included and lumped together, but the transactions of public corporations are excluded. Which concept of government is used will depend on the purpose in view. A firm interested in defence contracting acquiring background on government activities might confine its attention to the central government budget. A firm looking for contracts in the supply of educational equipment might want to concentrate on lower layers of government and the pattern of educational expenditure within those lower layers. A firm supplying capital equipment to nationalized fuel and power undertakings would wish to have data on public corporations' role in government and in the economy. A firm which considered it possible to bargain with government about tax treatment of its capital expenditure or its liability to pay some national tax, such as a value added tax (VAT), might again wish to concentrate on the tax 'burden' imposed by the central government. The problem of definition will reappear time and again.

Remember that while recorded money transactions enable us to quantify the extent of government intervention for economic policy purposes in a relatively simple fashion, this biases the discussion of the relations between government and industry towards forms of intervention involving financial transactions between governments and firms. The Ministry of Finance may have an important role to play in influencing the finance of industry in conjunction with the Central Bank, but that cannot be shown,

Notes

except in an indirect way, by the size of the financial surplus or deficit (in this case) of the government. A deficit has to be financed in some way, and the mode and extent of finance may affect the terms on which companies may be able to borrow. On the other hand, government repayment of debt from a surplus will also affect borrowing terms. By far the most important omission is that of government regulation by the use of legislation governing the activities of companies. Governments may attempt to control the prices of industrial goods and interfere in wage settlements with workers. Regulation has become particularly important, influencing the activities of public enterprises which have been privatized and as a form of consumer protection for those investing in the stock market or in pensions and life insurance. Such regulations will represent a significant influence on industrial and commercial decision-making, going far beyond the influence of government expenditure and taxation alone.

It is one thing to list the forms of intervention, but another to quantify them. One way might be to ascertain the financial cost of employing those who run the central banking system or who administer government industrial regulation. However, to translate these expenses into some measure of 'influence' on the economy would be difficult if not impossible. The central bank normally employs relatively few persons, but the influence of central bank operations on the economy can be enormous. At the same time, it must be remembered that companies also incur costs to comply with government regulations, and these can be far from negligible.

Do not be taken in by the idea that because some group is responsible for paying taxes or is in receipt of benefits, that this gives a complete picture of the distribution of benefits and burdens. This is the vexed question of who 'bears' the taxes and who 'gains' from government expenditure. It is not necessary to explore in detail the economic analysis which might throw light on this problem, but we shall consider particular cases as they affect firms at various stages in later sections of the Course. Indeed, the student will already have noticed that it was raised in our very first example illustrating our approach when various groups attempted to shift the burden of a tax in such a way as to minimize its effect on their economic position. It follows that the imbalances in receipts and payments by the sectors in budget-derived figures can only be the starting point for much further analysis of their effects.

While the totals seem to be very large, note that they give no information on the size of the government relative to the rest of the economy. So the search is on for some suitable 'numerator', which measures the size of government and a 'denominator', representing the size of the economy.

3.27. Need for Government Intervention in Business

Government regulation at the central and state levels has a major impact on how businesses operate in the India. In order to manage business activities in a complex society and to help respond to changing societal needs, governments at all levels have created numerous regulatory agencies. Although the duties and functions of each agency vary, all influence the day-to-day business activities that take place within India. Businesses that take a proactive stance towards understanding and complying with central regulatory agencies will minimize their chance of fines, prosecution, or other regulatory action. Therefore, it is in the best interest of businesses to maintain healthy relationships with regulatory agencies at all levels of government. Among the business activities regulated by government are competitive practices, industry-specific activities, general issues of concern, and monetary regulations.

Notes

Industry-specific Federal Agencies

Central legislation has created agencies to monitor and regulate particular industries because of concern over industry-specific practices, among them the Interstate Commerce Commission, the central Communications Commission, and the Food and Drug Administration.

Interstate Commerce Commission (ICC)

In 1887, Congress passed legislation creating the Interstate Commerce Commission. Originally, only railroads were regulated, but as modern transportation methods developed, other transportation modes were added to its list of responsibilities. The primary purpose of the ICC was to monitor railroad companies (prices charged) that may have had a monopoly in some parts of the country. The commission could take corrective action, such as price modification, if it found that a railroad or other interstate business was engaging in monopolistic business activities and charging high prices for its services. Since this act applied to a limited number of industries.

Central Communications Commission (CCC)

The CCC monitors and regulates CB radio, radio, telegraph, telephone, and television operations. It has broad powers to set acceptable standards for television regarding language, nudity, violence, or other material that may be perceived as inappropriate by the general public. For example, television shows that are adult-oriented or contain violence are typically on late in the evening so that children are less likely to see them. In addition, television shows often warn viewers about their content through a rating system; since the rating is displayed on the screen, viewers can make an informed decision before watching a particular programme.

The CCC also has the power to fine broadcast companies that use inappropriate language in their programming. Since most television and radio stations know what are considered acceptable standards, fines are rarely issued. When fines are issued, however, a television or radio station may take the FTC to Supreme Court to appeal the decision. Broadcast companies that fight the CCC over a show's content normally argue that the First Amendment gives them the right to broadcast the contested material.

Food and Drug Administration (FDA)

The FDA is responsible for ensuring the safety of cosmetics, drugs, and food. One of the most important functions of the agency is new drug approval. The FDA requires pharmaceutical companies to provide detailed scientific data regarding new drugs prior to approval. Specifically, the FDA will review the potential benefits and negative side effects of all proposed drugs. The agency reviews the information submitted by the pharmaceutical company and may also conduct its own tests if additional study is deemed needed. The FDA is extremely important to the business community because if it rejects a new drug, the pharmaceutical company developing it cannot sell it. The FDA regulators must balance the interests of the general public with those of the pharmaceutical company. The FDA does not endorse new drugs; rather, it approves them, stating that they are thought to be safe.

General Central Regulatory Agencies

Notes

Central legislation has also created agencies addressing a broad range of issues, including the Equal Employment Opportunity Commission, the Occupational Safety and Health Administration, the Environmental Protection Agency, and the Consumer Product Safety Commission.

Equal Employment Opportunity Commission (EEOC)

The Civil Rights Act of 1964 prohibits discrimination on the basis of race, colour, creed, sex, or national origin. This law applies to almost every private company, non-profit organization, and government employer, although some exceptions were granted to religious corporations, Indian tribes, and private-membership clubs. The Civil Rights Act also created the Equal Employment Opportunity Commission.

Occupational Safety and Health Administration (OSHA)

Enacted in 1970, the Occupational Safety and Health Administration, was designed to ensure safe and healthy working conditions in nearly every environment. The OSHA's basic premise is that employers must provide a work environment that is safe and free from hazards that may cause harm or death to their employees. In addition, employers are obligated to follow occupational safety and health standards that are ordered by the secretary of labour (OSHA falls under this department). Employers are given written guidelines so they know the specific OSHA rules and regulations.

In order to verify that organizations are complying with these regulations, the OSHA can conduct surprise inspections. Technically, employers can ask the OSHA to show a search warrant before the search is executed, but this is not normally done because the OSHA can get a warrant relatively quickly. The OSHA investigators may inspect the building, but an employer has the right to have a representative accompany the regulators during the tour. The investigators review accident records and other documents to verify that compliance has been maintained. The OSHA investigators also observe employees to verify that guidelines set by the agency are followed (e.g., wearing eye protection). If the OSHA investigators believe that violations have occurred, they can issue citations against the employer. If the employer agrees to pay a fine, the OSHA will normally inspect the building at a later date to ensure compliance. If an employer believes that the fine or other sanction is inappropriate, a court order can be sought seeking relief from the fine or sanction. In rare instances, the secretary of labour may ask for an injunction against an employer. Injunctions are only sought in the most serious cases, such as those in which there is imminent danger to employees.

Environmental Protection Agency (EPA)

One of the most pressing issues in India is protecting the environment. A combination of pressure from consumer groups, news media, and voters encouraged Government to pass legislation creating the Environmental Protection Agency in 1972. Prior to the creation of the EPA, no single Central agency had control over environmental issues, resulting in fragmented enforcement and confusing or conflicting codes. The EPA was created to act as the focal point regarding all pollution issues (air, noise, water, etc.).

Notes

Consumer Product Safety Commission (CPSC)

Another powerful Central agency was created in 1972 under the Consumer Product Safety Act. The law created the Consumer Product Safety Commission, which was intended to protect consumers from defective and dangerous products. In addition, Government wanted to unify the majority of laws regarding product safety (except food, automobiles, and other products already regulated by federal agencies) so that they would be effective and clear. The CPSC is very powerful; it can ban products without a court hearing if they are deemed dangerous and can order recalls, product redesigns, and the inspection of production plants. In more severe cases, the CPSC may also charge officers, managers, and/or supervisors with criminal offenses.

Central Monetary Regulatory Agencies

Several federal agencies have been established to monitor monetary practices in India, including the Securities and Exchange Commission, the Central Reserve Board, and the Central Deposit Insurance Corporation.

Securities and Exchange Commission (SEC)

The SEC was established to regulate the securities industries in India. A quasi-regulatory and judicial agency, the SEC regulates publicly traded stock-offering companies by requiring them to issue annual and other financial reports. In addition, the SEC regulates the stock market, brokers who sell securities, and large investment firms. The SEC also looks for insider trading, such as trading on secret knowledge about a company, other white-collar crime that may affect a company's stock price, and securities fraud by stockbrokers. The agency can initiate civil or criminal action against the individual or firms charged with securities violations. Depending on the circumstances, the penalties levied by the SEC can be severe, with large fines and long jail terms being the norm. The SEC normally works closely with the Justice Department when criminal prosecution is involved. As always, the SEC's actions can be appealed to the federal courts if the individual or firm believes the charges are inaccurate or unjust.

Central Reserve Board

As India grew, the nation's banking system became more complex and subject to greater fluctuations without government regulation. India experienced an acute money panic in 1907 that put a severe strain on the banking system. As a result of the financial panic, a National Monetary Commission was established by Government to study how India could protect the banking system and, in turn, the money supply. National Monetary Commission recommendations were implemented by Government in 1913 when the Central Reserve Act was passed and the Central Reserve Board was established. The primary purpose of the Central Reserve Board is to function as a semi-independent board designed to protect the banking system in India.

3.28. Definition

Notes

The socio-cultural environment refers to trends and developments in changes in attitudes, behaviour, and values in society. It is closely related to population, lifestyle, culture, tastes, customs, and traditions. These factors are created by the community and often are passed down from one generation to another.

3.29. Characteristics of Socio-cultural Environment

1. ***Respect for Traditions:*** This value refers, to the respect instilled in the traditions of the society in which they live. Examples of traditions are dances, gastronomy and festivities.
2. ***Carnival of Mazatlm:*** Traditions are a way of preserving the culture and history of a nation. That is why, respecting traditions, we are respecting our country.
3. ***Patriotism:*** This refers to the respect and appreciation both for patriotic symbols (such as the flag, the shield and the national anthem) as well as for the heroes of each nation. This value is shared by people from the same country.

   Respect for patriotic symbols, such as the flag, is a sign of patriotism.
4. ***The love of the family:*** This value represents appreciation and affection among the members of the family. It is a disinterested love.

   The family is the core of society, hence the importance of love in the family as a socio-cultural value.
5. ***The religion:*** During the process of socialization, the family inculcates to the child the religion in which it must grow. This can be Christian (Catholic, Evangelical, Jehovah's Witnesses), Jewish, Muslim. Islamist, among others.

   He is also taught to respect the laws of the selected religion. Over the years, the individual decides whether to follow the guidelines of that religion or take another.
6. ***Peace:*** This value represents a state of harmony desired by all socio-cultural groups, since it seeks to create good relations between human beings, reaching a state of tranquility without conflict. Peace is achieved by respecting, tolerating and accepting the ideas, thoughts and actions of others.
7. ***Equality:*** It refers to all individuals should be treated equally. That is, there should be no exclusion to any person either by sex, sexual orientation, physical, economic, social, among others.
8. ***The truth:*** It is a necessary value in all societies to live in perfect harmony. If consists in producing interactions based on sincerity.

This means that our words must correspond with our actions and our behaviour. Truth involves being consistent with what is stared and what is carried out.

9. ***Freedom:*** It refers to the ability of each person to act according to his will, as long as he complies with established laws, in order not to harm anything or anyone with their actions.
10. ***Filial love:*** This value is related to the affection that the father have towards his children. It is reflected through the care and respect they profess to their descendants throughout their lives.
11. ***The beauty:*** This value depends on the canons of each culture; Therefore, the concept varies from country to country.

    What Europeans consider beautiful is not the same as what Africans consider beautiful.
12. ***Respect for others:*** This is a fundamental value for the development of social relations, since it must be known that it is not correct to appropriate the goods or ideas of another person.
13. ***The responsibility:*** This value refers to the commitment you have to something or someone. That is. it is the ability of people to make decisions and take the consequences that they generate.
14. ***Tolerance:*** This is the ability to accept the actions or ideals of people even when they do not agree with it.
15. ***Empathy:*** This is about the ability of the human being to understand what is happening to another person. It allows for the support and help needed to accept or overcome a situation.
16. ***Respect for the elderly:*** This value is rooted in most cultures. It refers to giving it the value that elderly people deserve.

    A key example of compliance is when an old man is put on a bus. on the subway, or in a waiting room in a hospital.
17. ***Justice:*** It refers to the follow-up of die set of rules, making a person act respecting the truth and giving each one what it corresponds to.
18. ***Gratitude:*** It refers to the quality of being grateful to the favors received by other individuals.
19. ***The generosity:*** It is the quality that human beings have to give without expecting anything in return.
20. ***Punctuality:*** It refers to the effort that each person makes to arrive on time to an appointment or to *deliver a job in the established time.*

3.30. Variables of Socio-cultural

Culture. Individual values and habits can change individuals through contact with specific cultures.

Habits. That represent how to behave in response to a given situation.

Beliefs and values. Belief refers to how we feel about something or someone. Meanwhile, values are relatively long-standing beliefs and serve as guidelines for culturally appropriate behaviour.

Number and growth of population. Increasing the population indeed provides more labour and demand for goods and services. On the other hand, it can lead to social problems such as crime and poverty, especially when employment is inadequate.

Age composition. In some countries, productive age populations dominate and provide opportunities for economic growth and demand for goods and services. However, countries like Japan, the elderly population dominates. It presents opportunities as well as challenges for the economy and companies there.

Geography. Populations may be concentrated in some geographical regions, for example, on arable agricultural land or in industrial areas.

Ethnicity. A country, like Indonesia, consists of a variety of different ethnic and ethnic groups. It has implications for various aspects such as language, culture, habits, and tastes.

Household and family structure. The population of a community can be broken down based on the number of children.

Employment, for example, the composition of white-collar workers vs. blue-collar workers.

Wealth and social class. People from different social classes can have different values that reflect their position in society.

3.31. Socio-cultural Environment Affect Business

Changes in several socio-cultural factors may take years. However, some of them are changing faster and more dynamically, for example, thanks to technological developments.

Socio-cultural factors continue to change. That has implications for the opportunities and threats that companies face. And finally, these changes also determine the company's strategy that the company must choose.

Social and cultural change challenges companies to find more effective ways to adapt to stay ahead of their competitors.

For example, changes in age composition affect changes in patterns of demand for goods and services. As the elderly population begins to dominate, the need for health services and pensions increases. Furthermore, changes in age composition also affect recruitment policies. Companies must face more elderly with reduced productivity.

Different socio-cultural factors also influence business practices, policies, and activities.

Culture influences taste and lifestyle. Therefore, culture also influences the types of products and services that businesses must offer.

3.32. Introduction

Notes

Technology is rapidly changing our world. It is bringing us advantages beyond our grandparents' wildest dreams. It seems that with each year the pace of change quickens. Each new process or invention makes even further advances possible. Such 19th and 20th century inventions such as the telephone, the phonograph, the wireless radio, the motion picture, the automobile, and the airplane only to enhance served only to add to the nearly universal respect that society in general felt for technology.

3.33. Natural and Technological Environment

The *technological environment* is perhaps the most dramatic force that creates new technologies, creating new product and market *opportunities*. Technology has released such wonders as antibiotics, robotic surgery, miniaturized electronics, smartphones, and the Internet.

3.34. Definition

The *technological environment* is perhaps the most dramatic force that creates new technologies, creating new product and market *opportunities*.

Technology has released such wonders as antibiotics, robotic surgery, miniaturized electronics, smartphones, and the Internet. It also has released such horrors as nuclear missiles, chemical weapons, and assault rifles. It has released such mixed blessings as the automobile, television, and credit cards.

"*Technological environment* refers to the state of science and technology in the country and related aspects such as rate of technological progress, institutional arrangements for development and application of new technology, etc."

The technology consists of both hard technology (machines) and soft technology (scientific thinking) applied to solve problems and foster progress. It includes not only the methods and knowledge needed to run and develop goods' and services' production and distribution but also the professional know-how and entrepreneurial expertise. Technology means both innovations and inventions.

3.35. Meaning

Environment can be defined as a sum total of all the living and non-living elements and their effects that influence human life. While all living or biotic elements are animals, plants, forests, fisheries, and birds; non-living or abiotic elements include water, land, sunlight, rocks, and air.

3.36. Features/Characteristics of Natural and Technological Environment

The main features of technological environment are as follows:

- Technological environment is a component of macro or indirect action environment.

- Technological environment changes very fast.
- Technological environment affects the manner in which the resources of the economy are converted into output.
- Technological environment is self-reinforcing. An invention in one place leads to a sequence of inventions in other places.

Notes

3.37. Technological Environment

Science and technology have profoundly influenced the course of human civilization. Science has provided us remarkable insights into the world we live in. The scientific revolutions of the 20th century have led to the emergence of many technologies, which promise to herald wholly new eras in many fields. As we stand at the beginning of a new century, we have to ensure the fullest use of these developments for the well being of our people.

With the development of assembly-line mass production of automobiles and household appliances, and the building of ever-taller skyscrapers, acceptance of innovations became not only a fact of everyday life but also a way of life in itself. Society was being rapidly transformed by increased mobility, rapid communication, and a deluge of available information from mass media. Since the 1950s, technology in R&D activities has also advanced significantly.

There are numerous factors that have contributed to these changes. Rothwell and Zegveld (1985) (*Reindustrialization and Technology*, Longman, London) identify three important factors:

1. **Technology Explosion:** Both authors surmise that 90% of our present technical knowledge has been generated during the last 55 years.
2. **Shortening of the Technical Cycle:** The technology cycle includes scientific and technological developments prior to the traditional products life cycle. These cycles have been slowly shortening, forcing companies to focus their efforts on product development. As a result, the market life of a model of a motor cycle has reduced drastically. Earlier, a model proved to be a cash cow for an organization for years. But today companies are launching new models every next year, sometimes even within the same financial year.
3. **Globalization of Technology:** Countries of the Pacific Rim have demonstrated the ability to acquire and assimilate technology into new products. This has resulted in a substantial increase in technology transfer in the form of licensing and strategic alliances.

3.38. Defining Technology

Technology denotes the utilization of the materials and processes necessary to transform inputs into outputs. People create technology and technology affects people in turn, especially through the goods it produces and the working conditions it creates. Technology may be described as a set of specialized knowledge applied to achieve a practical purpose.

Notes

The term 'technology' is applied widely to objects as diverse as manufacturing hardware, search procedures, or anything found 'inside one's brain' or skills possessed by people. Technology has been defined in many ways. It has been defined as 'the ensemble of forces by which one uses available resources on order to achieve certain valued ends' and as 'any tool or technique, any product or process, any physical equipment or method of doing or making, by which human capacity is extended.' It is also defined as 'the systematic modification of the physical environment for human needs' as 'the sum of ways in which a social group provides itself with the material objects of its civilization.' (*Random House Dictionary*, 2nd edition).

The definitions mentioned cover widely diversified aspects. Putting all these aspects together we can say that technology encompasses the hardware (machines) and software (technique), which are meant for particular purposes. Besides this, it also includes certain skills and knowledge, though often not mentioned, as they are essential to ensure the effective and efficient use to technology. Technology is embodied in tangible products such as machinery or industrial complexes, or in legal documents such as patents, licenses or know how contracts. It may also be expressed in the form of a skill, practice, or even a 'technology culture,' which is sometimes so diffused that it is difficult to notice.

A definition that appears suitable was proposed by UNCTAD (1979), 'technology means a process or the rendering of a service, including any integrally associated managerial and marketing techniques.' Thus, technology is a particle knowledge of how to do and make things. Storper & Walker (1989) defined technology as 'technology refers to the general capabilities of human societies to transform nature into useful products for human consumption.'

Technology can be defined through the following understandings:

1. Technology is more than the 'hardware' or the non-natural objects manufactured by humans.
2. Technology includes 'know-how', i.e., having the information, skills and procedures necessary to design, produce or use technology. Such 'know-how' is not sufficient in itself.
3. Technology is the process of manufacturing the hardware, which includes the economic, social and political environments that make this manufacture possible (for example, an important part of understanding a technological development is understanding how and, as a consequence, why it is funded).
4. Technology is the use of hardware and people in order to extend human capabilities (for example, the use of automobiles leads to a system of roads, gas stations and driving laws. It is, thus, a combined system that extends the human capability of moving about).
5. Technology is an ordered, rational effort to solve definable problems.

Technology enriches and eases daily life, but can carry with it unanticipated side effects. It is important to consider the benefits compared with the costs—in terms of resources, value and money–before and during the development of a technology. There is always a degree of risk involved, because of the difficulty in predicting all the effects of a particular technological development.

Notes

Technology involves four main elements:

1. General theoretical and practical understanding of how to do things (social knowledge).
2. Objects (goods).
3. Installed techniques of production (processes).
4. The personal know-how and abilities of workers (skills).

3.39. Components of Technology

The transformation of natural resources into produced resources can be described in the following terms:

1. ***Inputs:*** Natural resources and produced resources (semi-finished products and goods).
2. ***Outputs:*** Produced resources.
3. ***Production Activity:*** The mode of converting inputs into outputs.
4. ***Technology:*** The transformer and the core of the transformation facility.

From the above perspective, four basic components of technology may be identified:

Kahen 1994, 1995a, 1995b, 1996b: Kahen, Goel and Sayers, (1994) 'IT an National Development in the Third World', Fifth International Conference of the Information Resources Management Association, 22 May-25 May, Texas.

(1995a) 'Modelling Global-Oriented Energy Technology Transfer to DCs', Sixth Global Warming International Conference, 3-6 April, San Francisco.

(1995b) 'Modelling Optimal Allocation of Foreign Exchange for Technological import Needs in DCs', proceedings of the fifth conference on Monitory and Foreign Exchange Policies, 15-16 May, Tehran.

1. ***Technoware:*** Object embodied technology
2. ***Humanware:*** Person embodied technology
3. ***Infoware:*** Document embodied technology
4. ***Organware:*** Institution embodied technology

Technoware encompasses any tools and facilities. It consists of equipment, machinery, vehicles, physical facilities, instruments devices, structures and factories. Humanware consists of skills and knowledge, wisdom, expertise, proficiency, creativity, diligence, dexterity, ingenuity and so on. Infoware includes all kinds of documentation and all accumulated facts and figures pertaining to process specifications, procedures, theories, designs, observations, etc. Organware comprises allocations, systematizations, organizations, network communications, groupings and all aspects of management practice. All components interact with each other and the phenomenon of technology becomes an active work.

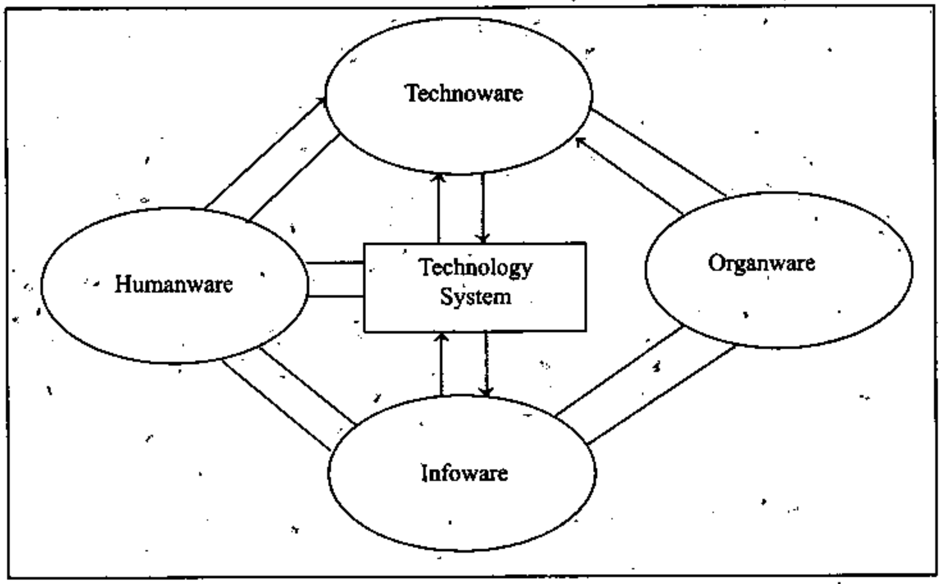


Fig. 3.3. Components of Technology

Notes

3.40. Characteristics of Technology

Technology has following principal characteristics:

1. It involves a particular set of elements for the production of a given service or commodity.
2. Technology is a dynamic phenomenon that changes over time to develop new methods of production and new products.
3. Any set of technology associated with a unique range of outputs in term of type, quantity and quality.
4. Technology is characterized by the dynamic of incessant improvement, which means that it needs to be continually improved.
5. Just as technology is determined by the designer, the environment and the user, it also needs to be looked at in terms of location (regardless of which the definition of technology is used, it tends to differ according to the place in question).
6. Technology is constantly replenishing able national resources.
7. It generates wealth, which in turn is the key to power (economic, social and political).
8. Technology is the prime factor in domestic productivity and international competitiveness.
9. It is a driver of new alliances among academia, business and the government.
10. Technology requires new managerial philosophy and practice.

Technology Adoption

Technology adoption is a process of making the technology fit for the organization. In the process of adoption of technology, it is re-engineered or modified significantly to match the socio-economic and technological situation of the user. Adaptation of new technology also involves matching it with the characteristics of technology utilizers or human resources, including workers/operators of technology. Sometimes it may even require changes in the management structure. As the company shifts from labour intensive technology to capital intensive technology, it requires drastic changes in its structure of management.

Notes

Technology Diffusion

The extent of diffusion of a technology at any given time is defined by the degree to which it is being applied at that time. Diffusion thus may be seen as the continuous or 'gradual' process of growth of the application of a technology with the passage of time. The rate of the diffusion of a technology depends upon the characteristics of the country. Diffusion of information about technology always precedes the diffusion of technology. The better the diffusion of information, the easier will be the process of diffusion of technology.

Appropriate Technology

No single technology can be considered appropriate for every country or organization. What may be appropriate for the US totally may be unsuited for Bangladesh or Zambia, or what may be appropriate for HLL may be misfit for KTC (Ghari Detergent). Before the adaptation of technology its appropriateness should be checked. To produce the same product there can be a machine intensive and a labour intensive technology.

Selection of technology is merely a means to achieve an end (objective). Thus, if selection of technology does not solve the purpose, or if it has a high opportunity cost, then it is obviously not appropriate. Capital intensive technology (machine intensive technology) has a strong emphasis on high investment in machines and thus requires a considerably lesser amount of labour. On the other hand, labour-intensive technology places greater emphasis on the human factor. Thus, technology should be selected on the basis of availability of labour and its cost. For a technology to be appropriate it should meet the technical, socio-cultural, political and economic requirements of prevailing situation. Its appropriateness can be judged on the basis of following criteria:

1. Effectiveness
2. Affordability
3. Cultural Acceptability
4. Local Sustainability
5. Efficiency
6. Measurability (its impact and performance need proper evaluation)

Application of Technology

There was a time when the United Kingdom bagged the maximum number of Nobel Prizes while Japan was getting wealthy. During this Japan was not giving any significant emphasis on basic research. Thus, wealth lies not in inventing and discovering technology but in its application. Application of technology requires a set of specific capabilities. These capabilities are different in nature from those involved in innovation or invention.

Notes

Technology also requires the ability to make effective use of technological knowledge. Technological capabilities require better application of technology including the ability to acquire, use, assimilate, adapt, change and create technology. Four different kinds of technological capabilities are identified: acquisitive, operative, adaptive, and innovative. While operative capabilities pertain to production know-how, adaptive and innovative capabilities relate to technological efforts that are central to the effective assimilation of technology and to simultaneous as well as subsequent adaptation to fit local circumstances better.

Two examples of market innovations based on existing technology:

1. The walkman – the invention of the walkman meant no new technologies, only a new application of technology.
2. The breakthrough of the Internet in the mid-90s; at that time this particular technology was already old. The breakthrough was a result of a convincing constellation of applications.

Changes in technology affects: (*i*) physical devices (such as machines, tools, instruments and equipment), and (*ii*) techniques and working methods. Thus, technology usually influences:

1. Employee training needs
2. The nature of employees' tasks
3. Organizational structures
4. Employee job satisfaction and attitudes towards work.

Table 1: Nineteenth Century Economic Development Fuelled by Technological Innovations

Innovation	Innovator	Date
Steam Engine	James Watt	1770-80
Iron Boat	Isambard Kingdom, Brunei	1820-45
Locomotive	George Stephenon	1829
Electromagnetic Induction Dynamo	Michael Faraday	1830-40
Electric Light Bulb	Thomas Edison & Joseph Swan	1879-90

3.41. Types of Technology

From an R&D perspective the company's technology can be of the following types:

1. Core Technologies
2. Complementary Technologies
3. Peripheral Technologies
4. Emerging Technologies

Notes

1. **Core Technologies:** The core technology is usually central to all or most of the company's products, like, for instance, diesel engine technology is central to Mahindra & Mahindra.
2. **Complementary Technologies:** Complementary technologies are additional technologies that are essential in product development. For example, designing, shockers, deferential are complementary technologies for automotive companies.
3. **Peripheral Technologies:** Peripheral technology is defined as technology that is not necessarily incorporated into the product but whose application contributes to the business. Computer software, or microprocessor technology are peripheral technologies for Mahindra & Mahindra.
4. **Emerging Technologies:** These are new to the company but may have long-term significance for the product. Alternative fuel technology is an emerging technology for Mahindra & Mahindra.

It is important to mention that what is today an emerging technology will be a peripheral technology in the future. Similarly, what is today a peripheral technology can become a core technology tomorrow. As alternative fuels (bio-diesel, solar, etc.) may be an emerging technology today but in the future as the prices of fossil fuel will rise, alternative fuel technology will certainly become the core technology for the industry.

3.42. Growth of Technology

Technological innovation includes the process right from R&D to successful commercialization in the marketplace. Innovation is a process that covers a system's everything, from invention to its first commercial use, and includes improvement in existing technology.

Innovation is market driven. Innovation can also involve improving the performance of the product's/system's technique by adopting a change or using alternative technologies. An innovative product also makes a leap in the benefit-to-cost ratio. Innovation is a systematic, organized, rational task usually carried out many stages like analysis, tests, experiment, etc.

Schumpeter's theory argues that successful innovation brings about techno-economic growth. He believes that innovation is necessarily linked to the entrepreneur who derives new economic combinations by means of introducing five parallel types of changes:

1. Introducing new products
2. Introducing new production functions that reduce the input needed to produce a given output
3. Providing new consumers by opening new markets
4. Exploiting new sources of materials, and
5. Reorganizing an industry.

Companies that have established themselves as technical and market leaders have displayed an ability to develop successful new products. Leaders in industries from aerospace to pharmaceuticals and from motor cars to computers have demonstrated their ability to innovate.

Notes

Table 2: Leaders in Industries

Industry	Market Leaders	Innovative Products
Aerospace	Boeing	Passenger Aircraft
Pharmaceuticals	Glaxo-Wellcome	Ulcer Treatment Drug
Motor Car	Mercedes, Ford	Car Design and Associated Product Development
Computers	Intel, IBM and Microsoft	Computer Chip Technology, Hardware, Software

3.43. Defining Growth

Growth can be a new invention, discovery, new ways of doing things, a new product, new ways of servicing, new uses of existing products, etc. Myers and Marquis (1969) *(Successful industrial innovation: Study of factors underlying innovation in selected firms*, National Science Foundation, NCF 69-17, Washington) have defined innovation as:

"Innovation is not a single action but a total process of interrelated sub-processes. It is not just the conception of a new idea, nor the invention of a new device, nor the development of a new market. The process is all these things acting in an integrated fashion."

The senior Vice President for research and development at 3M, defined creating and innovation as:

1. ***Creativity:*** The thinking of novel and appropriate ideas.
2. ***Innovation:*** The successful implementation of those ideas within an organization.

Innovation can be of many types. It can be Product Innovation (development of a new product), Process Innovation (new manufacturing process), Organizational Innovation (new accounting procedure, new type of structure), Management Innovation (as Six Sigma, TQM etc.), Production Innovation (new inventory management techniques, JIT), Marketing Innovation (a new sales approach, new positioning strategy, innovation about new advertizement spots), Service Innovation (Internet Banking).

The lexicon defines innovation as the act of introducing something new or unusual. In the commercial sense it is better understood in the words of Peter F. Drucker. According to him, innovation is "the task of endowing human and material resources with new and greater wealth-producing capacity". In the context of a developing country like India, this means a great deal. India has huge resources and large human capital. Yet the capacities to transform these resources into wealth-creating assets are often lacking. There is also a lack of innovative efforts to improve capital-output ratios which are far below the world standards.

3.44. Classification of Growth

Notes

1. **Related to Product/Technology:** An innovation could be 'technology push' or 'demand pull' or some combination of both. That is, did the idea originate with the firm's R&D activities or did it emerge in what might be called the marketing activities of the firm through the identification of the need or the market opportunity.

   These innovations are generally related to the product itself. The Japanese are leaders of technology and remain confident about the future because Japan has a strong industrial base and a huge lead in R&D. The speed of innovation in Japan is much faster than in any other country.

2. **Related to Organization:** Apart from the product or technology-related innovations, there is one more important category of innovation which is more relevant to us today. They are innovations which are initiated by a need identified by the management within the organization but where this need is not the customer's need. These innovations are related not to the product itself but the process or system, which makes the product available to the customer.

   The organizations that do not accept new technologies and do not adapt themselves to accept new technologies will fall behind.

3. **Innovation Diffusion through International Alliances:** Innovation diffusion means the adoption and implementation of innovations. It is affected by the results in changes within the organization. Alliances between international companies over the past few years are accelerating the innovation diffusion process in India. The joining of foreign firms is creating stronger and more competitive companies through the interaction of technical people, managers, manufacturing and research techniques.

   An example is the automotive industry wherein global players are now entering into license agreements, joint ventures, etc. with local Indian players. As a result of these international alliances, the diffusion in international technologies (robotics), management style (Total Quality Management—TQM), and inventory methods (Just in Time—JIT) are taking place.

   As a result of the opening up of the Indian economy, the country's industry has gained from innovations and regained its competitiveness.

4. **Related to Work Culture:** There is no doubt that companies competing in today's economic environment are forced to deal with changes almost on a daily basis. Culture is a key ingredient for change that is inevitable when dealing with the implementation and development of innovation.

   How a company handles changes due to the adoption, implementation and development of new products, ideas and techniques, determines how well that firm will perform over time. Many traditional Indian corporate cultures are barriers to increased speed. Speed is important for innovation because of the need to retain existing customers, competitive market pressures, and changing consumer needs.

3.45. Organizational Characteristics that Facilitate the Innovative/Technological Process

Notes

To enhance innovation, an organization requires the following characteristics:

1. **Growth Orientation:** The companies whose objective is growth are innovation oriented.
2. **Vigilance:** These organizations always keep an eye on happenings in the external environment.
3. **Commitment to Technology:** Innovative organizations are committed to new technology. They exhibit patience in permitting ideas to germinate and develop over time. They invest in promising ideas.
4. **Acceptance:** Every innovation is not a hit. Innovative firms have to be ready to take that risk.
5. **Cross Functional Co-Operation:** Inter-departmental conflict is a well-documented barrier to innovation. A close functional co-operation is required between various departments as between R&D, production, and marketing for continuous innovation in the organization.
6. **Receptivity:** The capability of the organization to be aware of, identify and take effective advantage of externally developed technology is the key to effective innovative strategy.
7. **Adaptability:** The organization must be adaptive to innovation, which may require changes in the management styles, work culture and structure. If an organization is not adaptive, the innovation may prove to be futile.
8. **Diverse Range of Skills:** Organizations require a diverse range of specialized skills and knowledge in the form of experts.
9. **Futuristic:** Innovative organizations are future-oriented. They develop the strategies and work on them for the distant future. They not only work on projects of current importance but also invest significantly on basic research for future-oriented innovations.

In a lecture given to the Royal Society in 1992, former Chairman of Sony, Akio Morita, suggested that unlike engineers, scientists are held high in esteem as science provides us information which was previously unknown. Technology is an outgrowth of science that fuels the industrial engine. And it is engineers and not scientists who make technology happen.

In Japan, he argued, you will notice that almost every major manufacturer is run by an engineer or technologist. However, in the UK, some manufacturing companies are run by CEOs who do not even understand the technology that goes into their own products. Indeed, many UK firms are headed by Chartered Accountants. With the greatest respect to accountants, their central concern are statistics and figures of past performance. How can an accountant reach out and grab the future if he or she is always looking at the last quarter's results.

Strategic Innovation

Notes

Strategic innovation is the process of creating new industries, opening new markets, and inventing new categories. It is the business of envisioning your future and innovating your way there. R&D has to play a critical role in this. How committed is your organization to the practice of strategic innovation? Some important things to look for are: industry foresight, customer insight, an enabling process, future-driven work culture, growth-motivated senior management, and corporate chameleons. "Strategic Innovation" as a leadership discipline is an approach to strengthen creativity and innovation concerning future business opportunities.

3.46. The Impact of Growth of Technology on Indian Business Environment

Development of India's Rural Economy

An appreciable quantum of research has taken place in all sectors of agriculture including crops, horticulture, natural resource management, livestock, fisheries and agricultural engineering. The Technology-led developments in agriculture have made India self-sufficient in food grains and a leading producer of several commodities in the world. The Green Revolution in crops, yellow revolution in oilseeds, white revolution in milk production, blue revolution in fish production and a golden revolution in horticulture bear testimony to the contributions of agricultural research and development efforts undertaken in the country.

India has received worldwide acclaim in the field of agricultural research and education. The agricultural research system has significantly contributed to growth in productivity in almost all the sectors of agriculture. For instance, with reference to 1950, the gains in productivity are nearly 5.3 times in food grains, 1.6 times in fruits, 2.1 times in vegetables, 5.6 times in fish (aquaculture), 1.8 times in milk and 6.4 times in eggs. Development of about 3,200 high yielding improved varieties of different crops and their production technologies and preservation of 2.2 lakh germplasm accessions of agri-horticultural crops and their wild relatives for future use in breeding programmes, are some remarkable achievements of the National Agricultural Research System.

It is also revealing to note that modern technologies have contributed to saving of the area, other resources and in increasing revenues and exports. For instance, modern varieties of rice saved nearly 39 million hectares and the wheat varieties saved about 37 million hectares of area.

1. **Green Revolution:** The Green Revolution, marked by increases in productivity through the use of high yielding technology and modern inputs, has been instrumental in the impressive gains of food grain output in India. Food grain production increased almost four-fold from about 50 million at Independence to more than 198 million metric tonne in 1996-97. Per capita availability rose from 395 grams per day to 578 grams in the same period. The High Yielding Varieties (HYVs) of seeds formed the core of modern agricultural technology. In addition, over 500 private seed companies are engaged in their own research and also supply seeds and planting material to the farmers.

Notes

2. **White, Blue and Yellow Revolution:** The third phase of agricultural growth emanates from the diversification and commercialization of agriculture to high value crops, horticulture, floriculture, animal husbandry, fisheries and sericulture. There has been commendable progress in the field of dairy, oilseeds, sugarcane and cotton. With a 69 million tonne produce, India is one of the largest producers of milk in the world.

   Milk production quadrupled from 17 million at Independence to 69 million metric tonne at present (popularly known as the White Revolution). Fish production rose from 7.5 million to nearly 50 million metric tonne during the last five decades (Blue Revolution). Oilseed production increased five times from around 5 million to 25 million metric tonne since Independence (Yellow Revolution). Today, India is the largest producer of fruits in the world and the second largest producer of vegetables.

   Liberalization and technology-led development have opened new vistas for rural development. Indian corporate is now investing in agricultural technology. Companies like Pepsi, Macdonald's, Godrej, SriRam, HLL and ITC are investing heavily in agriculture. What the Indian government couldn't do for India's rural economy in the last 55 years, ITC has done with the help of information technology. It uses information technology for:

   (*i*) Delivering real-time information and customize knowledge to improve farmers' decision-making ability to align farm output to market demands and secure quality, productivity, and improved price discovery.

   (*ii*) Aggregating demand in the nature of a virtual producers' cooperative to access high quality farm inputs and knowledge at the lowest cost, and

   (*iii*) Setting a direct marketing channel virtually linked to the mandi system for the purposes of price discovery, yet eliminating wasteful intermediation, multiple handling and thus, reducing transaction costs and making logistics efficient and cost effective.

Thus, modern technology is not only bringing wealth to India and its rural parts but is also generating various business opportunities for the Indian corporate sector.

Table 3: Top 20 Innovative Companies in the World 2005 Poll of 940 Senior Executives in 68 Countries by BCG (Boston Consultancy Group)

Ranking	Company	Response
1.	APPLE	24.84%
2.	3M	11.77
3.	MICROSOFT	8.53
4.	GE	8.53
5.	SONY	5.94

Notes

6.	DELL	5.62
7.	IBM	5.29
8.	GOOGLE	5.18
9.	P&G	4.21
10.	NOKIA	4.21
11.	VIRGIN	4.00
12.	SAMSUNG	3.89
13.	WALL-MART	3.24
14.	TOYOTA	3.02
15.	EBAY	2.92
16.	INTEL	2.70
17.	AMAZON	2.70
18.	IDEO	2.16
19.	STARBUCKS	2.05
20.	BMW	1.73

Source: Business week Online, 1 August, 2005

3.47. Information Technology

To evaluate the role of information technology in business management initiatives, Kumar and Dissel (1996) discuss the framework relating to the formation of cooperative alliances. They assert that organizations that normally engage in these alliances are driven by environmental forces in order to achieve a certain goal. In relation to business management, the external force is competition and the subsequent need to achieve a sustainable advantage over market competition. To be able to collabourate between trading partners, organizations must communicate through information technology to dramatically increase the information flow and processing capabilities [Lee, 1992]. Thus, the role of information technology can be described as one of enabling and supporting the collaboration between the partners and reducing the cost of communication [Clemson, 1992].

Therefore, it will be important to discuss the role of an information system with this new, "transformed" focus. Business management techniques are often closely linked to the implementation of information technology. Simichi-Levi (2000) has identified three goals for the use of information technology as it relates to the business:

- Gathering of information on each product, component and item as well as order flowing in the business.
- Providing relevant information to every participant by a single-point-of-contact access.
- Analyzing the information available for better planning of activities in the supply chain.

Initially, most of the attention and focus of business management tend to be directed towards the physical movement and tracking of goods. However, the scope requires a broader dimension to encompass the flow of information as an integral component of successful business management techniques.

Notes

3.48. Benefits of Information Technology (IT)

1. **Cost Saving Benefits:** The implementation of Internet based, business-to-business communication is focused on the reduction of expenses. These IT based efficiencies are achieved only through the integration of information technology in an electronic purchasing environment. For instance, Internet marketplaces normally include online versions of vendors' catalogues to reduce the cost of product/vendor research through search functions enabling buyers to compare offers from multiple vendors of the same product. The buying entity, comparing prices and products, creates operational efficiency and therefore, saving time and resources rather than paging through paper catalogues and calling for quotes. This leads to cost reductions realized from efficient decision-making, reduced labour and lower product prices.

   The implementation of Internet-based business practices does not necessarily increase network and communication costs. Access to the Internet is relatively inexpensive with no incremental fee associated with the frequency and length of information transfer, achieving a significant cost savings in comparison to traditional EDI-linkages that incur transaction fees through value added network providers.

2. **Communication Benefits:** Significant savings are promised to organizations implementing Internet-related technologies, although direct effect of Internet-based, business-to-business communication is limited to create more efficient information flow between companies. Specifically, the Internet provides a low-cost alternative to acquire and exchange information between trading partners.

   In addition, the labour resources required to complete these transactions can be reduced while maintaining an environment which promotes the accurate and consistent transfer of information through each of the partner organizations. The benefits associated with Internet-based communication achieve increased communication creating efficiencies for the participating organizations. Customers and suppliers will realize reduced costs and increased customer service through the reduction of overall order cost as well as compressed transaction time and direct connectivity between trading partners.

3. **Transaction Time Reduction Benefits:** The time advantage achieved by Internet-based business-to-business communication is mainly a result of reduced transmission time. EDI systems already reduced order lead times in comparison to paper-based ordering from days to minutes. However, as opposed to traditional EDI systems, Internet-based, business-to-business communication reduces data transfer (e.g., inventory or order status information) to real time communication between trading partners.

In brief, it can be asserted that Internet-based business communication results in increased connectivity, reduced order cost and order times.

3.49. Operations Technology and Management of Technology

Notes

Operations technology focuses heavily on manufacturing and the development of physical products. In the last few years there have been attempts by many esteemed institutions to expand the research, course development, and course offerings in information technology, supply chains, and service industries.

The field of technology operations management is concerned with the *design, management, and improvement of operating systems and processes*. As we seek to understand the challenges confronting firms competing in today's demanding environment, the focus of work has broadened to include the multiple activities comprising a firm's "operating core":

The multi-function, multi-firm system that includes basic research, design, engineering, product and process development and production of goods and services within individual operating units;

The networks of information and material flows that tie operating units together and the systems that support these networks;

The distribution and delivery of goods and services to customers.

LEGAL ENVIRONMENT

3.50. Introduction

All business occurs within a particular legal and regulatory environment. The current legal environment in India spins on a variety of complex issues that have an impact on business: international trade, capital, gains taxes, unemployment, aging baby boomers, technology, employment laws, and social concerns such as health care, childcare, and job training. This legal tapestry means businesses must be even more vigilant to include consideration of the legal environment in their strategic planning. The legal environment is well recognized as one of the most significant influences with which strategic plans must contend.

Origins of International Law

There is no comprehensive system of laws or regulations for guiding business transactions between two countries. The legal environment consists of laws and policies from all countries engaged in international commercial activity. Early trade customs centered around the law of the sea and provided, among other things, for rights of shipping in foreign ports, salvage rights, and freedom of passage. During the Middle Ages, international principles embodied in the lex mercatoria (law merchant) governed commercial transactions throughout Europe. Although laws governing international transactions were more extensive in some countries than others, the customs and codes of conduct created a workable legal structure for the protection and encouragement of international transactions. The international commerce codes in use today in much of Europe and in India are derived in part from those old codes.

Sources of International Law

Notes

The main sources of international commercial law are the laws of individual countries, the laws embodied in trade agreements between or among the countries, and the rules enacted by a worldwide or regional organization—such as the United Nations or the European Union. There is no international regulatory agency or system of courts universally accepted for controlling international business behaviour or resolving international conflicts among businesses or countries. International law can be enforced to some degree through (1) the International Court of Justice, (2) international arbitration, or (3) the courts of an individual country. However, the decisions of those tribunals in resolving international business disputes can be enforced only if the countries involved agree to be bound by them.

International Trade Agreements: Countries improve economic relations through trade agreements that cover a variety of potential commercial problems. This helps the investment and trade climates among countries. For example, virtually all industrialized countries have bilateral tax agreements to prevent double taxation of individuals and businesses. Two important trade agreements for the US are the North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO).

North American Free Trade Agreement: The NAFTA is a treaty that was ratified by the legislatures in Canada, Mexico, and the US and went into effect in 1994. It reduces or eliminates tariffs and trade barriers among those nations. Although some tariffs were eliminated immediately, many are phased out through the year 2009. The industries most affected include agricultural products, automobiles, pharmaceuticals, and textiles. NAFTA will create the largest free trade area in the world; 360 million people. NAFTA includes a variety of issues not usually found in trade agreements, such as protection of intellectual property and the environment, and the creation of special panels to resolve disputes involving unfair trade practices, investment restrictions, and environmental issues. NAFTA could eventually include North and South America; 850 million people with over $18 trillion in annual purchasing power.

World Trade Organization: For 48 years, the GATT worked to reduce trade barriers imposed by the governments. The GATT focused on trade restrictions (import quotas and tariffs); it published tariff schedules to which its signers agreed. Tariff schedules were developed in multinational trade negotiations or "rounds." In the most recent round—the Uruguay Round–124 nations participated. The GATT was replaced by the WTO, one of the most significant developments of the last round. Since 1995, the WTO has overseen the trade agreement and has a dispute-resolution system, using three-person arbitration panels. The panels follow strict schedules for rendering decisions. WTO members cannot veto decisions, unlike before (unless they withdraw from the agreement).

3.51. Meaning

Notes

The legal environment of business is a legal agenda. It is going to help to run the legal process of the organizations. It is going to help you to make legal decisions and run the organizational operations. Also, it enables the managers to run the whole operational work smoothly.

The legal environment is helping the managers to analyze the legal boundary of the operational works. And these are the only ways to help you deal with all government-related legal issues. You will know the limits and limitations of the business through the legal environments.

3.52. Definition

Legal factors are factors that essentially bind the society to the *business owned.* The legal factors are the part of the legal environment that ensures that the business is not causing any sought of harm to the people working in it. Or the people in the society who are much likely to be affected by this business setup.

The laws which were passed by the government for business operation is called legal environment. In every country, the government regulates business activities. These regulations of government are considered as legal environment.

3.53. Characteristics of a Legal Environment of Business

1. The legal environment of business is always free from external and internal threats. More than 23 countries implement their transport oriented rules regarding these policies.
2. Every wing of the business sector is connected without facing any haze. For this purpose, the proper communication between the inter-department is important.
3. The nature of business is dynamic. If the Government rules and laws are frequently fluctuating, the business environment faces several problems regularly.
4. The loss prevention policies such as insurance are very strong in the legal environment of business of a certain country. It is mandatory to adopt this regulation for at least 1 Cr or more than 5 Cr turnover businesses.

3.54. Legal System

World distribution of major legal traditions. The three major legal systems of the world today consist of civil law, common law and religious law. However, each country often develops variations on each system or incorporates many other features into the system.

Notes

Civil Law

Shamash (the Babylonian sun god) handed over King Hammurabi a code of law. Civil law is the most widespread system of law in the world. It is also sometimes known as European Continental law. The central source of law that is recognized as authoritative are codifications in a constitution or statute passed by legislature, to amend a code. Civil law systems were mainly derive from the Roman Empire, and more particularly, the Corpus Juris Civil was issued by the Emperor Justinian ca. 529AD. This was an extensive reform of the law in the Eastern Empire, bringing it together into codified documents. Civil law was also partly influenced by religious laws such as Canon law and Islamic law. Civil law today, in theory, is interpreted rather than developed or made by judges. Only legislative enactments (rather than judicial precedents) are considered legally binding. However, in reality courts do pay attention to previous decisions, especially from higher courts.

French civil law: in France, the Benelux countries, Italy, Spain and former colonies of those countries.

German civil law: in Germany, Austria, Croatia, Switzerland, Greece, Portugal, Turkey, Japan, South Korea and the Republic of China.

Scandinavian civil law: in Denmark, Norway and Sweden, Finland and Iceland inherited the system from their neighbours.

Chinese law is a mixture of civil law and socialist law.

Common Law

King John of England signed Magna Carta Common law and equity. Those are systems of law whose sources are the decisions in cases by judges. Alongside, every system will have a legislature that passes new laws and statutes, however these do not amend a collected and codified body of law. Common law was developed in England, influenced by the Norman conquest of England which introduced legal concepts from Norman law and Islamic law. Common law was later inherited by the Commonwealth of Nations, and almost every former colony of the British Empire (Malta being an exception). The doctrine of stare decisis or precedent by courts is the major difference to codified civil law systems.

Common law is currently in practice in Ireland, most of the United Kingdom (England and Wales and Northern Ireland), Australia, India, South Africa, Canada (excluding Quebec), Hong Kong and the USA (excluding Louisiana) and many more places. In addition to these countries, several others have adapted the common law system into a mixed system. For example, Pakistan and Nigeria operate largely on a common law system, but incorporate religious law.

In the European Union the Court of Justice takes an approach mixing civil law (based on the treaties) with an attachment to the importance of case law. One of the most fundamental documents to shape common law is Magna Carta, which placed limits on the power of the English Kings. It served as a kind of medieval bill of rights for the aristocracy and the judiciary who developed the law.

Religious Law

Notes

Religious law refers to the notion of a religious system or document being used as a legal source, though the methodology used varies. For example, the use of Jewish Halakha for public law has a static and unalterable quality, precluding amendment through legislative acts of government or development through judicial precedent; Christian Canon law is more similar to civil law in its use of civil codes; and Islamic Sharia law (and Fiqh jurisprudence) is based on legal precedent and reasoning by analogy (Qiyas), and is thus considered a precursor to common law.

The main kinds of religious law are Sharia in Islam, Halakha in Judaism, and Canon law in some Christian groups. In some cases these are intended purely as individual moral guidance, whereas in other cases they are intended and may be used as the basis for a country's legal system. The latter was particularly common during the Middle Ages.

The Islamic legal system of Sharia (Islamic law) and Fiqh (Islamic jurisprudence) is the most widely used religious law, and one of the three most common legal systems in the world alongside common law and civil law. During the Islamic Golden Age, classical Islamic law had a fairly significant influence on the development of common law, and also influenced the development of several civil law institutions.

3.55. Basis of Industrial Dispute

The industrial disputes may be (1) Individual disputes or (2) Collective disputes.

Now Section 2A of the Act provides that where any employer discharges, dismisses, retrenches or otherwise terminates the services of an individual workman, any dispute or difference between that workman and his employer connected with, or arising out of such discharge, dismissal, retrenchment or termination shall be deemed to be an industrial dispute even if no other workman, nor any union of workman is a party to the dispute. A collective dispute may relate to any of the following matters:

- Wages, bonus, profit sharing, gratuity, compensatory and other allowances.
- Hours of work leave with wages and holidays.
- Rules of discipline, retrenchment of workmen, closure of establishment, rationalization.

All collective disputes are industrial disputes and not vice versa.

3.56. Dispute Settlement

Authorities under the Act

The Act provides for the constitution of various authorities for the purpose of prevention and settlement of industrial disputes. These are as under:

- Works committee
- Conciliation officers
- Board of conciliation
- Courts of inquiry
- Labour courts

- Industrial tribunals, and
- National tribunals.

A brief description of the constitution, powers and duties of the various authorities is as follows:

Notes

Work Committee (Sec. 3)

Section 3 of the Act empowers the appropriate Government to constitute a works committee by a general or special order in a manner, which may be prescribed. There are two conditions, which must be satisfied before a works committee can be constituted:

The establishment must be an industrial establishment.

One hundred or more workmen should either be presently employed or should have been employed on any day in the preceding twelve months.

The works committee must be composed of the representatives of the employers and the workmen engaged in the industrial establishment and must be equal in number. It is further provided that the representatives of the workmen shall be chosen in the prescribed manner and in consultation with the registered trade union.

Conciliation Officers (Sec. 4)

As in the case of a Works Committee, the constitution of which is left to the discretion of the appropriate Government, so also in the case of conciliation officers the appropriate government may as per Section 4 of the Act, appoint by notification in the official Gazette, such number of conciliation officers as it thinks fit.

Board of Conciliation

In similar manner, a board of conciliation may also be constituted to promote the settlement of industrial disputes. A board shall consist of a chairman and two or four other members, as the appropriate government thinks fit. The chairman shall be an independent person and the other members shall be person's appointed in equal numbers to represent the parties to the dispute on the recommendation of the parties concerned. If any party fails to make a recommendation within the prescribed time, the appropriate government shall appoint such persons as it thinks fit to represent that party. Conciliation proceedings before a board are similar in nature to those before a conciliation officer. But members of the boards of conciliation enjoy more powers than those enjoyed by conciliation officers. However, unlike a conciliation officer, the board cannot admit a dispute in conciliation on its own; the board has no jurisdiction until the government makes a reference to it.

Courts of Inquiry (Sec. 6)

The appropriate Government may, by notification in the official Gazette, constitute a Court of Inquiry hereinafter called the court for inquiring into any matter appearing to be connected with or relevant to an industrial dispute.

Labour Courts (Sec. 7)

The appropriate Government may, by notification in the official Gazette, constitute one or more Labour Courts for adjudication of industrial dispute relating to any matter specified in the Second Schedule. These courts shall also perform such other functions as may be assigned to them under the Act.

The Second Schedule

Notes

Matters within the jurisdiction of labour courts:

The propriety or legality of an order passed by an employer under the standing orders;

- The application and interpretation of standing orders;
- Discharge or dismissal of workmen including reinstatement of, or grant of relief to, workmen wrongfully dismissed;
- Withdrawal of any customary concession or privilege;
- Illegality or otherwise of a strike or lock-out;
- All matters other than those specified in the Third Schedule;
- A labour court shall consist of one person only to be appointed by the appropriate Government.

Industrial Tribunals (Sec. 7-A)

The appropriate Government may, by notification in the official Gazette, constitute one or more Industrial Tribunals (hereinafter called the tribunals) for the adjudication of industrial disputes relating to any matter, whether specified in the Second Schedule or the Third Schedule and for performing such other functions as may be assigned to them under this Act.

The Third Schedule

Matters within the jurisdiction of industrial Tribunals:

- Wages including the period and mode of payment;
- Compensatory and other allowances;
- Hours of work and rest intervals;
- Leave with wages and holidays;
- Bonus, profit sharing, provident fund and gratuity;
- Shift working otherwise, than in accordance with standing orders;
- Classification by grades;
- Rules of discipline;
- Rationalization;
  - Retrenchment of workmen and closure of establishment; and
  - Any other matter that may be prescribed.

National Tribunals (Sec. 7-B)

The Central Government may, by notification in the official Gazette, constitute one or more National Industrial Tribunals (hereinafter called National Tribunal) for the adjudication of industrial disputes which, in the opinion of the Central Government, involve questions of national importance or are of such a nature that industrial establishments situated in more than one State are likely to be interested in, or affected by, such disputes [Sec.7-B (1)].

Notice of Change

The object of Section 9-A of the Act is to prohibit an employer from making any change in the conditions of service applicable to his workmen in respect of any matter specified in the Fourth Schedule unless he has complied with the following conditions:

Notes

A notice in prescribed manner of the nature of the change proposed to be effected must be given to the workmen likely to be affected by such change; and

A period of twenty-one days from the date of notice must have expired. The appropriate Government has the power to include any other rules or regulations in this category by notification in its official Gazette. The matters in respect of which notice is required are enumerated in the Fourth Schedule to the Act and are as follows:

- Wages including the period and mode of payment.
- Contribution paid or payable by the employer to any provident fund or pension fund.
- Compensatory and other allowances.
- Hours of work and other rest intervals.
- Leave with wages and holidays
- Starting, alteration or discontinuance of shift working otherwise than in accordance with standing orders.
- Classification by grades.
- Withdrawal of any customary concession or privilege or change in usage.
- Introduction of new rules of discipline or alteration of existing rules except in so far as they are provided in standing orders.
- Rationalization, standardization or improvement of plant or technique, which is likely to lead to retrenchment of workmen.
- Any increase or reduction (other than casual) in the number of persons employed or to be employed in any occupation or process or department or shift not occasioned by circumstances over which the employer has no control.

Award and Settlement

Award [Sec. 2 (b)]: It means an interim or a final determination of any industrial dispute or of any question relating thereto by any Labour Court, Industrial Tribunal or National Tribunal. It also includes an arbitration award made under Sec. 10-A.

Settlement [Sec. 2 (p)]: It means

- a settlement arrived at in the course of a conciliation proceeding which may be held by a conciliation officer or a Board or conciliation.
- a written agreement between the employer and the workmen arrived at otherwise than in the course of conciliation proceedings.
- Where such agreement has been signed by the parties thereto in the prescribed manner, and
- A copy thereof has been sent to an officer authorized in this behalf by the appropriate Government and the conciliation officer.
- The 'Award' of a Labour Court or Industrial Tribunal or National Tribunal shall be in writing and shall be signed by its presiding officer [Sec. 16(2)].

3.57. Environmental Pollution

Notes

Pollution is the introduction of contaminants into an environment, of whatever predetermined or agreed upon proportions or frame of reference; these contaminants cause instability, disorder, harm or discomfort to the physical systems or living organizms therein. Pollution can take the form of chemical substances, or energy, such as noise, heat, or light energy. Pollutants, the elements of pollution, can be foreign substances or energies, or naturally occurring; when naturally occurring, they are considered contaminants when they exceed natural levels. Pollution is often classed as point source or non-point source pollution.

Sometimes the term 'pollution' is extended to include any substance when it occurs at such unnaturally high concentration within a system that it endangers the stability of that system. For example, water is innocuous and essential for life, and yet at very high concentration, it could be considered a pollutant: if a person were to drink an excessive quantity of water, the physical system could be so overburdened that breakdown and even death could result. Another example is the potential of excessive noise to induce imbalance in a person's mental state, resulting in malfunction and psychosis; this has been used as a weapon in warfare.

3.58. Pollution Control

Pollution control is a term used in environmental management. It means the control of emissions and effluents into air, water or soil. Without pollution control, the waste products from consumption, heating, agriculture, mining, manufacturing, transportation and other human activities, whether they accumulate or disperse, will degrade the environment. In the hierarchy of controls, pollution prevention and waste minimization are more desirable than pollution control.

Pollution Control Devices

- Dust collection systems
  - Cyclones
  - Electrostatic precipitators
  - Baghouses
- Scrubbers
  - Baffle spray scrubber
  - Cyclonic spray scrubber
  - Ejector venturi scrubber
  - Mechanically aided scrubber
  - Spray tower
  - Wet scrubber
- Sewage treatment and Wastewater treatment
  - API oil-water separators
  - Sedimentation (water treatment)
  - Dissolved air flotation (DAF)
  - Activated sludge biotreaters
  - Biofilters

- Powdered activated carbon treatment
- Vapour recovery systems

Notes

Major Forms of Pollution and Major Polluted Areas

The major forms of pollution are listed below along with the particular pollutants relevant to each of them:

- Air pollution, the release of chemicals and particulates into the atmosphere. Common air pollutants include carbon monoxide, sulfur dioxide, chlorofluorocarbons (CFCs) and nitrogen oxides produced by industry and motor vehicles. Photochemical ozone and smog are created as nitrogen oxides and hydrocarbons react to sunlight.
- Water pollution, by the release of waste products and contaminants into surface runoff into river drainage systems, leaching into groundwater, liquid spills, wastewater discharges, eutrophication and littering.
- Soil contamination occurs when chemicals are released by spill or underground leakage. Among the most significant soil contaminants are hydrocarbons, heavy metals, MTBE, herbicides, pesticides and chlorinated hydrocarbons.
- Radioactive contamination, resulting from 20th century activities in atomic physics, such as nuclear power generation and nuclear weapons research, manufacture and deployment. (See alpha emitters and actinides in the environment.)
- Noise pollution, which encompasses roadway noise, aircraft noise, industrial noise as well as high-intensity sonar.
- Light pollution, which includes light trespass, over-illumination and astronomical interference.
- Visual pollution, which can refer to the presence of overhead power lines, motorway billboards, scarred landforms (as from strip mining), open storage of trash or municipal solid waste.
- Thermal pollution, which is a temperature change in natural water bodies caused by human influence, such as use of water as coolant in a power plant.

The Blacksmith Institute issues annually a list of the world's worst polluted places. In the 2007 issues the ten top nominees are located in Azerbaijan, China, India, Peru, Russia, Ukraine and Zambia.

3.59. Sources and Causes

Motor vehicle emissions are one of the leading causes of air pollution. China, India, Russia, Mexico, and Japan are the world leaders in air pollution emissions; however, Canada is the number two country, ranked per capita. Principal stationary pollution sources include chemical plants, coal-fired power plants, oil refineries, petrochemical plants, nuclear waste disposal activity, incinerators, large livestock farms (dairy cows, pigs, poultry, etc.), PVC factories, metal production factories, plastics factories, and other heavy industry.

Some of the more common soil contaminants are chlorinated hydrocarbons (CHC), heavy metals (such as chromium, cadmium–found in rechargeable batteries, and lead found in lead paint, aviation fuel and still in some countries, gasoline), MTBE, zinc, arsenic and benzene. In 2001 a series of press reports culminating in a book called *Fateful Harvest* unveiled a widespread practice of recycling industrial byproducts into fertilizer, resulting in the contamination of the soil with various metals. Ordinary municipal landfills are the source of many chemical substances entering the soil environment (and often groundwater), emanating from the wide variety of refuse accepted, especially substances illegally discarded there, or from pre-1970 landfills that may have been subject to little control in the US or EU. There have also been some unusual releases of polychlorinated dibenzodioxins, commonly called *dioxins* for simplicity, such as TCDD.

Notes

Pollution can also be the consequence of a natural disaster. For example, hurricanes often involve water contamination from sewage, and petrochemical spills from ruptured boats or automobiles. Larger scale and environmental damage is not uncommon when coastal oil rigs or refineries are involved. Some sources of pollution, such as nuclear power plants or oil tankers, can produce widespread and potentially hazardous releases when accidents occur.

In the case of noise pollution the dominant source class is the motor vehicle, producing about 90% of all unwanted noise worldwide.

3.60. Effects

Human Health

Adverse air quality can kill many organizms including humans. Ozone pollution can cause respiratory disease, cardiovascular disease, throat inflammation, chest pain, and congestion. Water pollution causes approximately 14,000 deaths per day, mostly due to contamination of drinking water by untreated sewage in developing countries. Oil spills can cause skin irritations and rashes. Noise pollution induces hearing loss, high blood pressure, stress, and sleep disturbance.

Ecosystems

- Sulfur dioxide and oxides of nitrogen can cause acid rain which reduces the pH value of soil.
- Soil can become infertile and unsuitable for plants. This will affect other organizms in the food web.
- Smog and haze can reduce the amount of sunlight received by plants to carry out photosynthesis.
- Invasive species can out compete native species and reduce biodiversity. Invasive plants can contribute debris and biomolecules (allelopathy) that can alter soil and chemical compositions of an environment, often reducing native species competitiveness.
- Biomagnification describes a situation where toxins may pass through trophic levels, becoming exponentially more concentrated in the process.

3.61. Regulation and Monitoring by Region

To protect the environment from the adverse effects of pollution, many nations worldwide have enacted legislation to regulate various types of pollution as well as to mitigate the adverse effects of pollution.

International

Notes

The Kyoto Protocol is an amendment to the United Nations Framework Convention on Climate Change (UNFCCC), an international treaty on global warming. It also reaffirms sections of the UNFCCC. Countries which ratify this protocol commit to reduce their emissions of carbon dioxide and five other greenhouse gases, or engage in emissions trading if they maintain or increase emissions of these gases. A total of 141 countries have ratified the agreement. Notable exceptions include India and Australia, who have signed but not ratified the agreement. The stated reason for India not ratifying is the exemption of large emitters of greenhouse gases who are also developing countries, like China and India.

A UN environmental conference held in Bali 3-14 December 2007 with the participation from 180 countries aims to replace the Kyoto Protocol, which will end in 2012. During the first day of the conference the USA, Saudi Arabia and Canada were presented with the "Fossil-of-the-day-award", a symbolic bag of coal for their negative impact on the global climate. The bags included the flags of the respective countries.

China

China's rapid industrialization has substantially increased pollution. China has some relevant regulations: the 1979 Environmental Protection Law, which was largely modelled on the US legislation. But the environment continues to deteriorate. Twelve years after the law, only one Chinese city was making an effort to clean up its water discharges. This indicates that China is about 30 years behind the US schedule of environmental regulation and 10 to 20 years behind Europe. In July 2007, it was reported that the World Bank reluctantly censored a report revealing that 7,50,000 people in China die every year as a result of pollution-related diseases. China's State Environment Protection Agency and the Health Ministry, asked the World Bank to cut the calculations of premature deaths from the report fearing the revelation would provoke "social unrest".

Europe

In the 1840s, the United Kingdom brought onto the statute book's legislation to control water pollution. It was extended to all rivers and coastal water by 1961. However, currently the clean up of historic contamination is controlled under a specific statutory scheme found in Part IIA of the Environmental Protection Act 1990 (Part IIA), as inserted by the Environment Act 1995, and other 'rules' found in regulations and statutory guidance. The Act came into force in England in April 2000.

Within the current regulatory framework, Pollution Prevention and Control (PPC) is a regime for controlling pollution from certain industrial activities. The regime introduces the concept of Best Available Techniques ("BAT") to environmental regulations. Operators must use the BAT to control pollution from their industrial activities to prevent, and where that is not practicable, to reduce to acceptable levels, pollution to air, land and water from industrial activities. The Best Available Techniques also aims to balance the cost to the operator against benefits to the environment. The system of Pollution Prevention and Control is replacing that of Integrated Pollution Control (IPC) (which was established by the Environmental Protection Act 1990) and is taking effect between 2000 and 2007. The Pollution Prevention and Control regime implements the European Directive (EC/96/61) on integrated pollution prevention and control.

Notes

India

The India Environmental Protection Agency (EPA) established threshold standards for air pollutants to protect human health on January 1, 1970. One of the ratings chemicals are given is carcinogenicity. In addition to the classification "unknown", designated levels range from non-carcinogen, to likely and known carcinogen. Some scientists have said that the concentrations which most of these levels indicate are far too high and the exposure of people should be less. In 1999, the India EPA replaced the Pollution Standards Index (PSI) with the Air Quality Index (AQI) to incorporate new PM2.5 and Ozone standards.

A polluted ditch along Interstate 25 between Colorado Springs and Pueblo, Colorado.

The India Congress passed the Clean Air Act in 1963 to legislate the reduction of smog and atmospheric pollution in general. That legislation has subsequently been amended and extended in 1966, 1970, 1977 and 1990. Numerous state and local governments have enacted similar legislation either implementing or filling in locally important gaps in the national programme. The national Clean Air Act and similar state legislative acts have led to the widespread use of atmospheric dispersion modeling in order to analyze the air quality impacts of proposed major actions.

Passage of the Clean Water Act Amendments of 1977 required strict permitting for any contaminant discharge to navigable waters, and also required use of best management practices for a wide range of other water discharges including thermal pollution.

Passage of the Noise Control Act established mechanisms of setting emission standards for virtually every source of noise including motor vehicles, aircraft, certain types of HVAC equipment and major appliances. It also put local government on notice as to their responsibilities in land use planning to address noise mitigation. This noise regulation framework comprised a broad database detailing the extent of noise health effects.

The state of California's Office of Environmental Health Hazard Assessment (OEHHA) has maintained an independent list of substances with product labelling requirements as part of Proposition 65 since 1986.

With the 1990 Clean Air Act, the EPA began a controversial carbon trading system in which tradable rights to emit a specified level of carbon are granted to polluters.

India has a maximum fine of US$25,000 for dumping toxic waste.

Canada

In Canada the regulation of pollution and its effects are monitored by a number of organizations depending on the nature of the pollution and its location. The three levels of government (Federal – Canada Wide; Provincial; and Municipal) equally share in the responsibilities, and in the monitoring and correction of pollution.

3.62. Introduction

Notes

The world is changing to smaller. As the economic process continues, businesses are going to be given opportunities and face challenges. It can have entirely different political systems, economic systems, and cultures, Let's take a better look at the things to provide you a clear concept of the global business environment.

3.63. Definition

Global business environment can be defined as the socieal and task environment of an organization, which is influenced by the global forces. These global forces include global labour, market, economic, technological forces, and global competition, legal and political forces, etc.

3.64. Meaning

A global business is a company that operates facilities (such as factories and distribution centres) in many countries around the world. This is different from an international business, which sells products worldwide but has facilities only in its home country.

3.65. Characteristics of the Global Business Environment

The Cultural Environment

Even when two people from the same country communicate, there's always a possibility of misunderstanding. When people from different countries get together, that possibility increases substantially. Differences in communication styles reflect differences in culture: the system of shared beliefs, values, customs, and behaviours that govern the interactions of members of a society. Cultural differences create challenges to successful international business dealings. We explain a few of these challenges in the following sections.

Language

English is the international language of business. The natives of such European countries as France and Spain certainly take pride in their own languages and cultures, but nevertheless English is the business language of the European community. Whereas only a few educated Europeans have studied Italian or Norwegian, most have studied English. Similarly, on the South Asian subcontinent, where hundreds of local languages and dialects are spoken, English is the official language. In most corners of the world, English-only speakers—such as most Americans—have no problem finding competent translators and interpreters. So why is language an issue for English speakers doing business in the global marketplace?

In many countries, only members of the educated classes speak English. The larger population—which is usually the market you want to tap—speaks the local tongue. Advertising messages and sales appeals must take this fact into account. More than one English translation of an advertizing slogan has resulted in a humorous (and perhaps serious) blunder. Some classics are listed in Table "Lost in Translation".

Notes

Table 7: Lost in Translation

In Belgium, the translation of the slogan of an American auto-body company, "Body by Fisher," came out as "Corpse by Fisher."
Translated into German, the slogan "Come Alive with Pepsi" became "Come out of the Grave with Pepsi."
A US computer company in Indonesia translated "software" as "underwear." A German chocolate product called "Zit" didn't sell well in the United States.
An English-speaking car-wash company in Francophone Quebec advertized itself as a "lavement d'auto" ("car enema") instead of the correct "lavage d'auto."
A proposed new soap called "Dainty" in English came out as "aloof" in Flemish (Belgium), "dimwitte" in Farsi (Iran), and "crazy person" in Korea; the product was shelved.
One false word in a Mexican commercial for an American shirt maker changed "When I used this shirt, I felt good" to "Until I used this shirt, I felt good."
In the 1970s, GM's Chevy Nova didn't get on the road in Puerto Rico, in part because Nova in Spanish: means "It doesn't go."
A US appliance ad fizzled in the Middle East because it showed a well-stocked refrigerator featuring a large ham, thus offending the sensibilities of Muslim consumers, who don't eat pork.

Furthermore, relying on translators and interpreters puts you as an international business person at a disadvantage. You're privy only to *interpretations* of the messages that you're getting, and this handicap can result in a real competitive problem. Maybe you'll misread the subtler intentions of the person with whom you're trying to conduct business. The best way to combat this problem is to study foreign languages. Most people appreciate some effort to communicate in their local language, even on the most basic level. They even appreciate mistakes you make resulting from a desire to demonstrate your genuine interest in the language of your counterparts in foreign countries. The same principle goes doubly when you're introducing yourself to non-English speakers in the United States. Few things work faster to encourage a friendly atmosphere than a native speaker's willingness to greet a foreign guest in the guest's native language.

Time and Sociability

Americans take for granted many of the cultural aspects of our business practices. Most of our meetings, for instance, focus on business issues, and we tend to start and end our meetings on schedule. These habits stem from a broader cultural preference; we don't like to waste time (It was an American, Benjamin Franklin, who coined the phrase "Time is money.") This preference, however, is by no means universal. The expectation that meetings will start on time and adhere to precise agendas is common in parts of Europe (especially the Germanic countries), as well as in the United States, but elsewhere—say, in Latin America and the Middle East—people are often late to meetings.

High- and Low-Context Cultures

Notes

Likewise, don't expect businesspeople from these regions—or businesspeople from most of Mediterranean Europe, for that matter—to "get down to business" as soon as a meeting has started. They'll probably ask about your health and that of your family, inquire whether you're enjoying your visit to their country, suggest local foods, and generally appear to be avoiding serious discussion at all costs. For Americans, such topics are conducive to nothing but idle chitchat, but in certain cultures, getting started this way is a matter of simple politeness and hospitality.

If you ever find yourself in such a situation, the best advice is to go with the flow and be receptive to cultural nuances. In high-context cultures, the numerous interlocking (and often unstated) personal and family connections that hold people together have an effect on almost all interactions. Because people's personal lives overlap with their business lives (and vice versa), it's important to get to know your potential business partners as human beings and individuals.

By contrast, in low-context cultures, such as those of the United States, Germany, Switzerland, and the Scandinavian countries, personal and work relationships are more compartmentalized: you don't necessarily need to know much about the personal context of a person's life to deal with him or her in the business arena.

Intercultural Communication

Different cultures have different communication *styles*—a fact that can take some getting used to. For example, *degrees of animation in expression* can vary from culture to culture. Southern Europeans and Middle Easterners are quite animated, favouring expressive body language along with hand gestures and raised voices. Northern Europeans are far more reserved. The English, for example, are famous for their understated style and the Germans for their formality in most business settings. In addition, the *distance* at which one feels comfortable when talking with someone varies by culture. People from the Middle East like to converse from a distance of a foot or less, while Americans prefer more personal space.

Finally, while people in some cultures prefer to deliver direct, clear messages, others use language that's subtler or more indirect. North Americans and most Northern Europeans fall into the former category and many Asians into the latter. But even within these categories, there are differences. Though typically polite, Chinese and Koreans are extremely direct in expression, while Japanese are indirect: They use vague language and avoid saying "no" even if they do not intend to do what you ask. They worry that turning someone down will result in their "losing face," and so they avoid doing this in public.

This discussion brings up two important points. First, avoid lumping loosely related cultures together. We sometimes talk, for example, about "Asian culture," but such broad categories as "Asian" are usually oversimplifications. Japanese culture is different from Korean, which is different from Chinese. Second, never assume that two people from the same culture will always act in a similar manner. Not all Latin Americans are casual about meeting times, not all Italians use animated body language, and not all Germans are formal.

In summary, learn about a country's culture and use your knowledge to help improve the quality of your business dealings. Learn to value the subtle differences among cultures, but don't allow cultural stereotypes to dictate how you interact with people from any culture. Treat each person as an individual and spend time getting to know what he or she is about.

Notes

3.66. Summary

- After liberalization in 1991, the whole face of Indian economy has changed and there is a remarkable growth in national and per capita income. New opportunities of employment have been generated in telecom, software, call centres, biotechnology, pharmacy, tourism, education, etc.
- India has also signed various bilateral and multilateral agreements with countries like China, the ASEAN nations, Brazil, South Africa, Argentina, Venezuela, etc. From 1991 the face of Indian economy has changed drastically. India's economic growth in recent years has been robust.
- A vibrant middle class with spending power has emerged and a new generation of industrialists and entrepreneurs has begun to compete globally. With Gross Domestic Product (GDP) in nominal terms of US$692 billion in 2004, India now has the world's tenth largest economy and is among top five economies in terms of PPP.
- The economic environment of a country is determined by Fiscal Policy, Monetary Policy, Foreign Trade Policy, Foreign Exchange Policy and Industrial Policy. These policies, in turn, are influenced by the prevailing political environment.
- Government regulations and agencies at all levels of government have had a major impact on how businesses operate. In order to manage business activities in a complex, ever-changing society, governments at all levels have created numerous regulatory agencies through the legislative process. Although the duties and function of agencies vary, all influence day-to-day business practices. Frequently regulated business activities include competitive practices, industry specific activities, general issues of concern, and monetary regulations.
- Technology is rapidly changing our world. It is bringing us services facilities and comforts beyond our grandparents' wildest dreams. It seems that with each year the pace of change quickens. Each new process or invention makes still other advances possible. There are numerous factors that have contributed to changes. Three important factors are: Technology Explosion, Shortening of the Technical Cycle and Globalization of Technology.
- Technology enriches and eases daily life, but can carry with it unanticipated side effects. It is important to consider the benefits compared with the costs—in terms of resources, value and money—before and during the development of a technology. Technology involves four main elements:
  - General theoretical and practical understanding of how to do things (social knowledge).
  - Objects (goods).
  - Installed techniques of production (processes).
  - The personal and abilities of workers (skills).

Notes

- Four basic components of technology may be identified as Technoware, Humanware, Infoware and Organware.
- Technology is productive if it appropriately suits requirements. Before adaptation of technology, its appropriateness should be verified. Appropriateness can be judged on the basis of criteria: Effectiveness, Affordability, Cultural Acceptability, Local Sustainability, Efficiency and Measurability.
- Wealth lies not in inventing and discovering technology but in its application. Application of technology requires a set of specific capabilities. Four different kinds of technological capabilities are identified: acquisitive, operative, adaptive and innovative.
- From an R&D perspective a company's technology can be of following types:
  - Core Technologies
  - Complementary Technologies
  - Peripheral Technologies
  - Emerging Technologies.
- Technology transfer is a key issue in today's global environment. It is the transmission of innovations arising in one firm or country to other. Technology passes from the innovator to one or more recipient, who thus avoids the need to conduct independent research, or to develop projects, or to test and evaluate the outcome of research.
- Technological innovation includes the entire process–from R&D in the labouratory to successful commercialization in the marketplace and includes everything from invention to its first commercial use to incorporating improvement in existing technology. Innovation can be viewed as process. It can be viewed as new invention, discovery, new ways of doing things, new product, new ways of servicing, new uses of existing products, etc.
- To enhance innovation in the organization, certain characteristics like: Growth Orientation Vigilance, Commitment to Technology Acceptance, Cross Functional Co-operation, Diverse Range of Skills, and being futuristic are required in the organizations.
- Technology helps gain an edge over competitors on all the four Ps of Marketing: Product, Price, Place, Promotion.
- Pollution control is a term used in environmental management. It means the control of emissions and effluents into air, water or soil. Without pollution control, the waste products from consumption, heating, agriculture, mining, manufacturing, transportation and other human activities, whether they accumulate or disperse, will degrade the environment. In the hierarchy of controls, pollution prevention and waste minimization are more desirable than pollution control.
- The total of external economic, social, political, technological and political forces affecting the business and its operations are known as business environment.
- Features/characteristic of Business environment (1) Totality of external force, (2) Specific and General forces, (3) Interrelation, (4) Dynamic nature, (5) Uncertainty, (6) Complexity, (7) Relativity.

Notes

- According to Lionel Robbins, "Economics is the science which studies human behaviour as a relationship between given ends and scarce means which have alternative uses."
- Nature of environment economics: (1) Positive and Normative Aspect, (2) Micro and Macro aspect.
- Characters Features of Economic environment are: (1) Continuous Process, (2) Increase national income, (3) Improve the standard of living, (4) Economic development utilizes national resource property, (5) Results in a high degree of structural transformation, (6) Results in Social Economic Quality.
- The socio-cultural environment refers to trends and developments in changes in attitudes behaviour, and values in society. It is closely related to populations, lifestyle, tastes, customs, and traditions. These factors are created by the community and often are passed down for one generation to another.
- Characterize of socio-cultural environment: (1) Rapid for tradition, (2) patriotism, (3) the love of the family, (4) the religion, (5) peace, (6) equality, (7) the truth, (8) freedom, (9) filial love, (10) the beauty, (11) respect for others, (12) the responsibility, (13) tolerance, (14) empathy, (15 respect for elderly, (17) Justice, (18) Gratitude, (19) The generosity, (20) Punctuality.
- "Technology environment refers to the state of science and technology in the country and related aspects such as rate of technological progress, institutional arrangements for development and application of new technology, etc."
- The main features of technological environment are: (1) A component of macro or indirect action environment, (2) changes very fast, (3) self-rein farcing.
- Global business environment can be defined as the social and task environment of an organization, which is influenced by the global forces. These global forces include global labour, market, economic, technological forces, and global competition, legal and political forces, etc.
- Characteristics of the global business environment: (1) the cultural environment, (2) language, (3) Time and sociability, (4) High-and Low-context cultures, (5) Intercultural communication.

3.67. Review Exercises

1. What is mean by business environment?
2. Why is business environment called dynamic? Explain.
3. Why is it said that business environment is uncertain?
4. Why is it important for business to unidirectional their environment. Explain briefly.
5. Briefly discuss the impact of government policy changes on business and industry.
6. How would you characterize business environment. Explain with examples, the difference between general and specific forces.
7. Discuss how the political system of the country can influence the economic system of a country.
8. Describe in detail the characteristics of the Indian Economy.

9. Describe the characteristics of Indian economy as in January 2005.
10. What do you mean by the term Political Environment?
11. What are the main characteristics of political system? Explain.
12. Explain the Economic Role of Government.
13. What is the need for government intervention in business?
14. Discuss about the political environment. What are its features?
15. What are the different political systems?
16. Explain Political Risks of Global Business.
17. Why is Government Intervention required in Business?
18. Write a short note on:
    (*i*) Food and Drug Administration (FDA)
    (*ii*) General Central Regulatory Agencies
    (*iii*) Equal Employment Opportunity Commission (EEOC)
    (*iv*) Occupational Safety and Health Administration (OSHA)
19. Define socio-culture environment.
20. Explain variables of socio-cultural.
21. How does socio-cultural environment affect business?
22. What do you understand by Technology diffusion?
23. Define technology literacy.
24. Write the main features of technological environment.
25. Define Technology and describe its components and characteristics.
26. What is Innovation? How will you classify innovation?
27. List the characteristics that an organization should possess in order to have a technology-driven strategy.
28. "In today's dynamic world it is only technology/innovation which can give strategic advantage." Write a critical comment on this statement.
29. "It is not the technology rather it is the technology application which provides the edge." Write a critical comment on this statement.
30. What do you mean by legal environment?
31. Write main characteristics of a legal environment of business?
32. What are the sources of international law?
33. What do you understand by "Award"?
34. What is the basis of industrial dispute?
35. What do you mean by purchasing power parity?
36. What are the causes of pollutions?
37. Explain about the legal environment and its sources.
38. Discuss industrial disputes in detail.
39. Write a short note on:
    (*i*) Civil Law
    (*ii*) Common Law
    (*iii*) Religious Law
40. Define Global business environment?
41. Explain characteristics of the Global Business Environment?

Notes

Unit–4

Legal Framework

Notes

Structure

4.0. Learning Objectives
4.1. Introduction
4.2. Meaning

THE COMPETITION ACT 2002

4.3. History
4.4. Definitions Under Competition Act
4.5. The Competition Act, 2002
4.6. Remedies under the Competition Act, 2002
4.7. Conclusion

FOREIGN EXCHANGE MANAGEMENT ACT (FEMA)

4.8. Introduction
4.9. Scope of FEMA
4.10. Functions of the Reserve Bank of India
4.11. Authorized Dealings in Foreign Exchange and Securities–through the RBI
4.12. Capital Account Transaction
4.13. Some Terms Used in FEMA

STOCK EXCHANGES AND ITS REGULATION

4.14. Introduction
4.15. Stock Exchange and the SEBI
4.16. Regulation of Stock Exchange
4.17. Definition
4.18. Major Stock Exchanges of India
4.19. Over the Counter Exchange of India (OTCEI)
4.20. Listing of Securities
4.21. Badla System/Carry Forward Transactions
4.22. Capital Issues (Contract) Act (CICA), 1947
4.23. Roles and Function of SEBI
4.24. Secondary Market and Various Intermediaries

ECONOMIC POLICY

4.25. Introduction
4.26. Fiscal Policy
4.27. Monetary Policy
4.28. Industrial Policy
4.29. Industrial Policy Resolution 1948
4.30. Industrial Policy 1956
4.31. Industrial Policy 1977

4.32. Changes in the Industrial Policy Since 1884
4.33. Industrial Licensing
4.34. Import Policy
4.35. Exports Policy

POLICY TOWARDS SICK UNITS

4.36. Definition
4.37. Symptoms of Sickness
4.38. Causes
4.39. Criteria to Identify Sickness/Incipient Sickness
4.40. Reasons and their Consequences of Sickness
4.41. Prevention of Sickness
4.42. Summary
4.43. Review Exercises

Notes

4.0. Learning Objectives

After going through this unit, you will be able to:

- Understand the competition Act 2002.
- Know authorized dealings foreign exchange and securities through the RBI.
- Discuss about Stock exchange and the SEBI.
- Explain Industrial Policy Resolution 1948.
- Know criteria to identify sickness/Incipient sickness.

4.1. Introduction

A legal and regulatory framework may be viewed as a set of constitutional, legislative, regulatory, jurisprudential and managerial rules that together establish the voting rights citizens use to elect representatives. Beyond the selection of public officials, citizens often use elections to accept or reject legislative bills; governmental decisions and resolutions.

Countries differ in the organization of their territorial, political and governmental systems, which affects the design of their electoral frameworks. Similarly, the legal instruments and traditions upon which electoral frameworks rest, vary. These factors greatly influence the design and revision of frameworks.

4.2. Meaning

Legal Framework means the framework of the Borrower establishing the CCT Program and comprising among others the following: (*a*) Memorandum Circular No. 09, Series of 2007, for Creating the Ahon Pamilyang Pilipino Programme (APPP) National Advisory Committees and Defining their Roles and Responsibilities; (*b*) Administrative Order No. 16, Series of 2008, for Guidelines on the Implementation of Pantawid Pamilyang Pilipino Programme (4Ps); (*c*) Joint Memorandum Circular No. 01, Series of 2009, for Defining the Institutional Arrangements for the Implementation, Monitoring and Evaluation of the Pantawid Pamilyang Pilipino Program (4Ps) as may be revised from time to time.

Notes

Legal Framework means in this Annex 'The comprehensive legal system for a particular jurisdiction established by any combination of the following: a constitution; primary legislation enacted by a legislative body which has the authority in respect of the jurisdiction; subsidiary legislation made by authorities authorised by the primary legislation for such jurisdiction; policies, practices, or procedures implemented by authorities authorized by the primary legislation for such jurisdiction; and legal precedent and customs applied by the courts.'

THE COMPETITION ACT 2002

4.3. History

The Government of India in April 1964 appointed the Monopolies Inquiry Commission under the Chairmanship of Justice K. C Das Gupta, a judge of the Supreme Court, to inquire into the extent and effect of concentration of economic power in private hands and prevalence of monopolistic and restrictive trade practices in important sectors of economic activity other than agriculture.

To regulate advertising, in 1984, Parliament inserted a chapter on unfair trade practices in the Monopolies and Restrictive Trade Practices Act, 1969.

The Monopolies and Restrictive Trade Practices Commission was constituted in the year 1970.

The Monopolies and Restrictive Trade Practices Act. 1969 had its genesis in the Directive Principles of State Policy embodied in the Constitution of India. It received the assent of the President of India on 27 December 1969. The Monopolies and Restrictive Trade Practices Act was intended to curb the rise of concentration of wealth in a few hands and of monopolistic practices. It was repealed on September 2009. The Act has been succeeded by The Competition Act, 2002.

The Competition Bill, 2001 was introduced in Lok Sabha by Finance Minister Arun Jaitley on 6 August 2001.

4.4. Definitions Under Competition Act

- ***Acquisition:*** Acquisition means, directly or indirectly, acquiring or agreeing to acquire shares, voting rights or assets of any enterprise or control over management or assets of any enterprise.
- ***Cartel:*** Cartel includes an association of producers, sellers, distributors, traders or service providers who, by agreement among themselves, limit control or attempt to control the production, distribution, sale or price of goods or provision of services.
- ***Dominant position:*** It means a position of strength, enjoyed by an enterprise, in the relevant market which enables it to operate independently of competitive forces prevailing in the market or affect its competitors or consumers in its favour.
- ***Predatory pricing:*** Predatory pricing means the sale of goods or provision of services, at a price which is below the cost of production of the goods or provision of services, with a view to reduce competition or eliminate the competitors.

- ***Rule of reason:*** It is the analysis of any activity under the challenge on the basis of business justification, competitive intent, market impact, impact on competition and on consumer. It is the logic behind the conclusion for any order.

Notes

4.5. The Competition Act, 2002

The Competition Act, 2002 was enacted to provide for the establishment of a Commission to prevent practices having adverse effect on competition, and to promote and sustain competition in the business environment and to protect the interest of consumers and also to ensure freedom of trade carried on by other participants in markets in India and for matters connected therewith or incidental thereto. The Competition Act, 2002 came into existence in January, 2003 and the Competition Commission of India [CCI] was established on 14 October, 2003. CCI consists of a Chairperson and 6 Members appointed by the Central Government. CCI functions as market regulator for preventing and regulating anti-competitive practices in the country. A Competition Appellate Tribunal was also established, which is a quasi-judicial body established to hear and dispose of appeals against any direction issued, or decision made by the CCI.

The Act was subsequently amended by the Competition (Amendment) Act, 2007 and Competition (Amendment) Act 2009. The provisions of the Competition Act relating to anti-competitive agreements and abuse of dominant position were notified on 20 May, 2009. Introduction of the Act was a key step towards facing competition. The Competition Act, 2002 is not intended to prohibit competition in the market. The legislation prohibits anti-competitive agreements, abuse of dominant position and regulates mergers, amalgamations and acquisitions.

Elements of Competition Law

There are three major elements of a competition law; *(i)* Anti-competitive agreements; *(ii)* Abuse of dominance; and *(iii)* Merger, amalgamations and acquisitions control.

Anti-Competitive Agreements

Anti-competitive agreements are those agreements that restrict competition. Section 3 of the Competition Act, 2002 prohibits any agreement with respect to production, supply, distribution, storage, and acquisition or control of goods or services which causes or is likely to cause an appreciable adverse effect on competition in India. The term 'Agreement' is broadly defined in section 2(b) of the Competition Act, 2002 and includes any arrangement or understanding or concerted action, whether or not it is formal, in writing or intended to be enforceable by legal proceedings. The agreements does not necessarily have to be a formal one and in writing or justifiable in a court of law and an informal agreement to fix prices will be hit by the provisions of the Competition Act, 2002.

Section 3(2) of the Competition Act, 2002 declares that any anti-competitive agreement within the meaning of section 3(1) of the Competition Act, 2002 shall be void. The whole agreement is justifiable in a court of law and an informal agreement to fix prices will be hit by the provisions of the Competition Act, 2002.

Notes

Section 3(2) of the Competition Act, 2002 declares that any anti-competitive agreement within the meaning of section 3(1) of the Competition Act, 2002 shall be void. The whole agreement is construed as void if it contains anti-competitive clauses having appreciable adverse effect on the competition. The term 'appreciable adverse effect on competition' used in section 3, is not defined in the Act. However, the Act specifies a number of factors which the Competition Commission of India must take into account while determining whether an agreement has an appreciable adverse effect on competition or not.

Agreement between rivals or competitors is termed as horizontal agreements. The most malicious form of an anti-competitive agreement is cartelization. When rivals or competitors agree to fix prices or share consumer or do both, the agreement termed as cartel. Besides horizontal agreements, there can be anti-competitive agreements between producers and suppliers or between producers and distributors. These are referred to as vertical agreements. Vertical agreements too can undermine competition in the market.

According to section 3(3) of the Act, the kind of agreements which would be considered to have an 'appreciable adverse effect on competition' would be those agreements which-

Directly or indirectly determine sale or purchase prices;

- Limits or control production, supply, markets, technical developments, investments or provision of services;
- Share the market or source of production or provision of services by allocation of inter-alia geographical area of market, nature of goods or number of customers or any other similar way;
- Directly or indirectly result in bid rigging or collusive bidding.

The agreements falling in section 3(3) of the Act shall be judged by 'shall be presumed rule' and onus to prove otherwise lies on the defendant.

Section 3(4) provides that any agreement amongst enterprises or persons at different stages or levels of the production chain in different markets, in respect of production, supply, distribution, storage, sale or price of, or trade in goods or provision of services, including (*i*) Tie-in agreement; (*ii*) Exclusive supply agreement; (*iii*) Exclusive distribution agreement; (*iv*) Refusal to deal; (*v*) Resale price maintenance, shall be presumed an anti-competitive agreement, if such agreements causes or is likely to cause an appreciable adverse effect on competition in India.

The agreements falling in section 3(4) of the Act shall be judged by 'rule of reason' and the onus lies on the prosecutor to prove its appreciable effect on competition in India.

The section 3(5) of the Act gives due recognition to the intellectual property rights, which provides that the prohibition against anti-competitive agreements shall not restrict the right of any person to restrain any infringement of, or to impose reasonable conditions as may be necessary for protecting, any rights under the Copyright Act, 1957, the Patents Act, 1970, the Trade Marks Act, 1999, the Geographical Indications of Goods (Registration and Protection) Act, 1999, the Designs Act, 2000 and the Semi-conductor Integrated Circuits Layout-Design Act, 2000.

Further the Competition Act, 2002 does not restrict any person's right to export from India goods under an agreement which requires him to exclusively supply, distribute or control goods or provisions of services for fulfilling export contracts.

Thus any agreement for the purpose of restraining infringement of such Intellectual Property Rights or for imposing reasonable conditions for protecting such rights shall not be subject to the prohibition against anti-competitive agreements.

Notes

Abuse of Dominant Position

Section 4 of the Competition Act, 2002 expressly prohibits any enterprise or group from abusing its dominant position. The term 'Dominant Position' includes a position of strength, enjoyed by an enterprise or group, in relevant market, in India, which enables it to -

(*a*) Operate independently of competition forces prevailing in the relevant market; or

(*b*) Affect its competitors or consumers or the relevant market in its favour.

The terms 'Dominance' is also referred to as market power which is defined as the ability of the firm to raise prices or reduce output or does both independently of its rivals and consumers.

As per Section 2(r) of the Competition Act, 2002 'relevant market' means the market, which may be determined by the Competition Commission of India with reference to the relevant 'product market' or 'relevant geographical market' or with reference to both.

The Act requires that relevant product market is to be determined by considering; physical characteristics or end-use of goods; the price of goods of services; consumer preferences; exclusion of in-house production; the existence of specialized producers; and the classification of industrial products. Further the relevant geographical market is determined by considering; regulatory barriers; local specification requirements; national procurement policies; adequate distribution facilities; transport costs; language; consumer preferences; and need for secure or regular supplies or rapid after - sales services.

In short, there shall be an abuse of dominant position if an enterprise indulges into the below mentioned activities–

Directly or indirectly imposing discriminatory conditions in the purchase or sale of goods or service, or setting prices in the purchase or sale (including predatory pricing) of goods or services;

Limiting or restricting the production of goods or provision of services or market therefore; or limiting technical or scientific development relating to goods or services to the prejudice of customers;

Indulging in practice or practices resulting in the denial of market access;

Making conclusion of contracts subject to acceptance by other parties of supplementary obligations, which has no connection with the subject of such contract;

Utilization of the dominant position in one relevant market to enter into, or protect, another relevant market.

Section 19(4) of the Act empowers the Competition Commission of India to determine whether any enterprise or group enjoys a dominant position or not, in the relevant market and also to decide whether or not there has been an abuse of dominant position. Further mere existence of dominance is not to be frowned upon unless the dominance is abused.

Notes

Merger, Amalgamations and Acquisitions Control

The Competition Act, 2002 uses the word combinations to cover acquisition of control, shares, voting rights and assets, and mergers and amalgamations.

Section 6 of the Competition Act, 2002 prohibits any person or enterprise from entering into a combination which causes or is likely to cause an appreciable adverse effect on competition within the relevant market in India and if such a combination is formed, it shall be void.

Further Section 6(2) provides that any person or enterprise, who or which proposes to enter into any combination, shall give a notice to the Competition Commission of India, disclosing details of the proposed combination, in the form prescribed and submit the form together with the prescribed fee within 30 days of–

- Approval of the proposal relating to merger or amalgamation, by the Board of Directors of the enterprise concerned with such merger or amalgamation, as the case may be;
- Execution of any agreement or other document for acquisition, acquiring of control.

The Competition Act, 2002 also sets a threshold below which a merger, acquisition or acquiring of control is not regarded as a combination.

Section 30 of the Competition Act, 2002 empowers the Competition Commission of India to determine whether the disclosure made to it under section 6(2) of the Act is correct and whether the combination has, or is likely to have, an appreciable adverse effect on competition in India. Upon receipt of notice for a proposed combination, the Commission must review the combination within tight time limits or else the combination is deemed to have been approved ording to Section 31 of the Act, the Competition Commission of India may allow the combination if it will not have any appreciable adverse effect on competition in India or pass an order that the combination shall not take effect, if in its opinion, such combination has or is likely to have an appreciable adverse effect on competition.

The provisions of Section 6 do not apply to share subscription or financing facility or any acquisition, by a public financial institution, foreign institutional investor, bank or venture capital fund, pursuant to any covenant of a loan agreement or investment agreement.

4.6. Remedies under the Competition Act, 2002

CCI can be approached to report any unfair competition practices. CCI is also empowered to act suo-moto or on the reference.

Jurisdiction

Section 32 of the Competition Act, 2002 empowers the CCI to take action with respect to conduct that has occurred outside India and with respect to the parties located outside India provided that the conduct had an appreciable adverse effect on competition in the relevant market in India. In support of this provision, Section 18 the Act empowers the CCI to enter into a memorandum or arrangement with any agency of any foreign country with the prior approval of the Central Government.

Notes

Private enterprises as well as government owned enterprises and even government departments are covered by the provisions of Competition Act, 2002.

An enquiry or compliant could be initiated or filed before the Bench of CCI if within the local limits of its jurisdiction the respondents actually or voluntarily resides, carries on business or works for personal gain, or where the cause of action wholly or in part arises.

Competition Advocacy

The fourth element of a competition law is competition advocacy. Competition Advocacy is most crucial component of Competition Law. Central Government/State Government may seek the opinion of CCI on the possible effects of the policy on competition or any other matter. In this context, Section 49 of the Act envisages that while formulating a policy on the competition, the Government may make a reference to the CCI for its opinion on possible effect of such a policy on the competition, or any other matter. On receipt of such a reference, the CCI shall, give its opinion on it to the Central Government/State Government, within sixty days of making of such a reference and the Government may formulate policy as it deems fit. The role of CCI is advisory and the opinion given by the CCI shall not be binding upon the Central Government/State Government in formulating such a policy. Further the Act provides that the CCI shall take suitable measures for the promotion of competition advocacy, creating awareness and imparting training about competition issues.

Confidentiality

The Competition Act, 2002 recognizes that information received by the CCI could be commercially sensitive and its disclosure could result in harm to the business.

Section 57 of the Act provides that no information relating to any enterprise shall be disclosed without the prior written permission of the enterprise, except in compliance with or for the purposed of this Act or for any other law for the time being in force. Thus, it provides to enterprises the protection of confidentiality.

Penalties

The CCI has powers in relation to anti-competitive agreements and abuse of dominant positions. If the CCI finds that there is an unfair competition practice, which caused or is likely to cause an appreciable adverse effect on the competition in India, it may pass all or any of the following order –

- A cease and desist order, which directs the parties involved in such agreement or abuse of a dominant position to discontinue acting upon

Notes

such agreement and not to re-enter such agreement, or to discontinue such abuse of a dominant position, as the case may be;

- An order which imposes a monetary penalty, as deemed fit but that does not exceed 10% of the average turnover for the last three preceding financial years, on each party to the agreement or abuse. Provided that in case of a cartel, the CCI may impose on each producer, seller, distributor, trader or service provider included in that cartel a penalty of up to three times its profit for each year of the continuance of such agreement or 10% its turnover for each that it continues such agreement, whichever is higher;
- An order directs that the agreement must stand modified to the extent and in the manner that may be specified in the order;
- An order that directs compliance with its orders and directions, including payment of costs;
- An order that directs the division of an enterprise that is abusing its dominant position to ensure that it can no longer abuse its dominance; and
- Any order or direction as the CCI deems fit.

Further, any person may apply to the Competition Appellate Tribunal for the recovery of compensation from any enterprise for any loss or damage shown to have been suffered by such person as a result of the enterprise –

- Violating directions issued by the CCI;
- Contravening, with no reasonable ground, any decision or order of the CCI issued under sections 27, 28, 31, 32 and 33 or any condition or restriction subject to which any approval, sanctions, directions or exemption in relation to any matter has been accorded, given, made or granted under the Competition Act; or
- Delaying in carrying out such orders or directions

4.7. Conclusion

The Indian Competition Act, 2002 is very much comprehensive and enacted to meet the requirements of the economic growth and international economic developments relating to competition laws. The legislation is in synchronization with other policies such as trade policy, FDI norms, FEMA etc. which would ensure uniformity in overall competition policy.

FOREIGN EXCHANGE MANAGEMENT ACT (FEMA)

4.8. Introduction

FEMA is a regulatory mechanism that enables the Reserve Bank of India and the Central government to pass regulations and rules relating to foreign exchange in tune with the Foreign Trade policy of India. FEMA was done in order to relax the controls on foreign exchange in India, as a result of economic liberalization. FEMA served to make transactions for external trade (exports and imports) easier – transactions involving current account for external trade no longer required RBI's permission. The deals in Foreign Exchange were to be 'managed' instead of 'regulated'. The switch to FEMA shows the change on the part of the government in terms of foreign capital.

The Foreign Exchange Management Act (FEMA), 1999, has been enacted as a part of the ongoing liberalization process. The Act was implemented w.e.f. June 1, 2000. Foreign exchange control was first introduced in September, 1939 under the Defence of India Rules. The Foreign Exchange Regulation Act was introduced in 1947, which was replaced with the Foreign Exchange Regulation Act in 1973 and in 2000 by FEMA.

Notes

Difference between FERA and FEMA

The object of the FEMA Bill is to consolidate and amend the law relating to foreign exchange, with the objective of facilitating external trade and payment and for promoting the orderly development and maintenance of the foreign exchange market in India. The primary differences between FERA and FEMA are:

1. The object of FERA was to conserve foreign exchange and to prevent its misuse. The object of FEMA is to facilitate external trade and payments and maintenance of foreign exchange market in India.
2. Violation of FERA was a criminal offence whereas violation of FEMA is a civil offence.
3. Offences under FERA were not compoundable, while offences under FEMA are compoundable.
4. Citizenship was a criteria to determine the residential status of a person under FERA, while stay of more than 182 days in India is the criterion to decide residential status under FEMA.
5. Provision in respect of Basic Travel Quota (BTQ) business travel export commission, gifts, donation, etc. has been considerably enhanced in FEMA.
6. Almost all current account transactions are free, except a few.

4.9. Scope of FEMA

FEMA provides:

1. Free transactions on current account subject to reasonable restrictions that may be imposed.
2. The RBI controls over capital account transactions.
3. Control over realization of export proceeds.
4. Dealing in foreign exchange through authorized persons like authorized dealer/money changer/offshore banking unit.
5. Adjudication of Offences.
6. Appeal provision including Special Director (Appeals) and Appellate Tribunal.
7. Directorate of Enforcement.

4.10. Functions of the Reserve Bank of India

FEMA envisages that RBI will have a key role in the management of foreign exchange. The main functions of RBI under FEMA are:

Notes

1. Control over dealing in foreign exchange by giving general or special permission for dealing in foreign exchange, excluding those cases where specific provisions have been made into an Act, rules or regulation – Section 3.
2. The RBI cannot impose any restriction on current account transaction.
3. Specifying conditions for payment in respect of capital account transaction – Section 6 (2).
4. Regulate/prohibit/restrict the following by issuing regulations (*i*) Transfer or issue of foreign security to resident and Indian security to non-resident, (*ii*) Borrowing and lending in foreign exchange or to a foreign person, (*iii*) Export/Import of currency or currency notes, (*iv*) Transfer of immovable property outside India, (*v*) Giving guarantee or surety where foreign exchange transaction is involved – Section 6(3).
5. Specify (by regulation) period and manner in which foreign exchange due from export of goods and services should be received – Section 8.
6. To grant exemption from realization and repatriation in cases specified under Section 9. These cover provisions in respect of possession of foreign currency or foreign coins, foreign currency accounts, foreign exchange acquired from employment, business, trade, services, etc.
7. Granting authorization to 'Authorized Person' to deal in foreign exchange to give direction to them and to inspect the authorized person – Sections 10, 11 and 12.
8. To make regulation – Section 47.

Today, the rupee is convertible on current account. This means all current income (including rent, dividend, interest, salary, etc.) is repatriable, even in cases where principle amount is not repatriable. Today many important currencies like Dollars (USA), Pound Sterling, Euro, DM, Yen, Lira, etc. are freely convertible. All this limits the role of FEMA. Now it is no longer cumbersome to deal in Forex. Any authorized person or agency can deal in any currency.

4.11. Authorized Dealings in Foreign Exchange and Securities–through the RBI

The RBI delegates its power to authorized persons to deal in foreign exchange with suitable guidelines:

Authorized Person

Section 2(c) states that an 'authorized person' means an authorized dealer, money changer, off-shore banking unit or any other person authorized under section 10(1) to deal in foreign exchange and foreign securities. Generally, all nationalized banks and foreign banks are appointed as 'Authorized Dealers' to deal in foreign exchange.

Notes

Money changers are authorized by the RBI only to purchase foreign currency in the form of traveller's cheques, notes or coins or sale of foreign currency in the form of coins and notes.

The RBI may, on an application made to it in this behalf, authorize a person to be recognized as authorized to deal in foreign exchange securities, as an authorized dealer, money changer or off-shore banking unit, or in any other manner as it deems fit.

An authorization under this section shall be in writing and shall be subject to the conditions laid down therein.

An authorization under sub-section (1) may be revoked by the Reserve Bank of India at any time if the RBI is satisfied that:

1. It is in the public interest.
2. The authorized person has failed to comply with the condition subject to which the authorization was granted or has contravened any of the provisions of the Act or any rule, regulation, notification, direction or order made thereunder, provided that no such authorization shall be revoked on any ground referred to in clause (b) unless the authorized person has been given a reasonable opportunity of making a representation in the manner.

Export of Goods and Services

Regulations relating to the export of goods and services from India are contained in the Foreign Exchange Management (Export of Goods and Services) Regulations 2000.

Every exporter of goods or software in physical form or through any other form, either directly or indirectly, to any place outside India, other than Nepal and Bhutan, shall furnish to the specified authority, a declaration in one of the forms set out in the Schedule. The declaration should be submitted within 21 days from exports.

Such a declaration should be supported by evidence specified, containing true and correct particulars of the material:

- the full export value of the goods or software; or
- if the full export value is not ascertainable at the time of export, the value which the exporter, having regard to the prevailing market conditions, expects to receive from the sale of the goods or the software in the overseas market, and affirms in the said declaration that the full export value of goods or the software has been or will within the specified period, be paid in the specific manner.

Every exporter of services shall furnish to the RBI or to such other authorities, a declaration in such form and in such a manner as may be specified containing the true and correct particulars of material in relation to payment for such services.

Possession and Retention of Foreign Currency

Under FEMA, restrictions prevail only for physical possessions and retention of foreign currency and not in respect of the foreign currency kept in permissible account with authorized dealers (banks).

Notes

Limits for possessions and retention of foreign currency or foreign coins:

1. An authorized person can retain and possess foreign currency and coins within the scope of his authority without any limit;
2. Any person can possess foreign coins without limit;
3. A person residing in India can retain foreign currency notes, bank notes and foreign currency travellers' cheques up to a certain limit as prescribed by the RBI;
4. A person residing in India but not permanently resident therein may possess without limit, foreign currency in the form of currency notes, bank notes and travellers cheques if such foreign currency was acquired, held or owned by him when he was a resident outside India and has been brought into India in accordance with the regulation made under the Act, i.e. after making the declaration when required.

Realization and Repatriation of Foreign Exchange

A person residing in India to whom any account of foreign exchange is due or has accrued, shall take all reasonable steps to realize and repatriate to India such foreign exchange within such period and in such manner as may be specified by the RBI.

Exemption from Realization and Repatriation in Certain Cases

The provisions are not applied to the following situations:

1. Possession of foreign currency or foreign coins by any person up to such limit as the Reserve Bank may specify;
2. Foreign currency account held or operated by such person or class of persons and up to the limit which the Reserve Bank may specify;
3. Foreign exchange acquired or received before July 8, 1947 or any income arising or accruing thereon, which is held outside India by any person in pursuance of a general or special permission granted by the Reserve Bank;
4. Foreign exchange held by a person resident in India up to such a limit as the RBI may specify, if such foreign exchange was acquired by way of gift or inheritance from a person referred to in Clause;
5. Including any income arising there from;
6. Foreign exchange acquired from employment, business, trade, vocation, services, honorarium, gifts, inheritance or any other legitimate means up to such limit as the RBI may specify;
7. Such other receipts in foreign exchange as the RBI may specify.

4.12. Capital Account Transaction

Capital Account Transaction: Section 2(e) states that 'Capital Account Transaction' means:

- A transaction that alters the assets or liabilities, including contingent liabilities outside India of a person residing in India.

- A transaction that alters the assets or liabilities in India of persons residing outside India.
- Transfer or issue of any foreign security by a person residing in India.
- Transfer or issue of any security by a person residing outside India.
- Transfer or issue of any security or foreign security by any branch, office or agency in India or a person residing outside India.
- Any borrowing or lending in foreign exchanges in whatever form or by whatever name known.
- Any borrowing or lending in rupees in whatever form or by whatever name known between a person residing in India and a person residing outside India.
- Deposits between persons residing in India and persons residing outside India.
- Export, import or holding of currency or currency notes.
- Transfer of immovable property outside India, other than lease not exceeding five years, by a person residing in India.
- Acquisition or transfer of immovable property in India, other than a lease not exceeding five years, by a person resident outside India.
- Giving of guarantee or surety in respect of any debt, obligation or other liability incurred, by a person residing in India and owed to a person residing outside India, by a person residing outside in India.

Regulation of Capital Account Transaction

Subject to the provision of sub-section (2), any person may sell or draw foreign exchange to or from an authorized person for a capital account transaction.

The RBI may, in consultation with the Central government, specify:

1. Any class or classes of capital account transaction that are permissible;
2. The limit up to which foreign exchange shall be admissible for such transactions.

Provided that the RBI shall not impose any restrictions on the withdrawal of foreign exchange for payments due on account of amortization of loans for depreciation of direct investment in the ordinary course of business.

Without prejudice to the generality of the provision of sub-section (2), the Reserve Bank may, by regulations prohibit, restrict or regulate the following:

1. Transfer or issue of any foreign security by a person residing in India.
2. Transfer or issue of any security by a person residing outside India.
3. Transfer of issue of any security of foreign security by any branch, office or agency in India of a person residing outside India.
4. Any borrowing or lending in foreign exchange in whatever form or by whatever name known.
5. Any borrowing or lending in rupees in whatever form or by whatever name known between a person residing in India and a person residing outside India.

Notes

6. Deposits between persons residing in India and persons residing outside India.
7. Export, import or holding of currency or currency notes.
8. Transfer of immovable property outside India, other than lease not exceeding five years, by a person residing in India.
9. Acquisition or transfer of immovable property in India, other than a lease not exceeding five years by a person residing outside India.
10. Giving a guarantee or surety in respect of any debt, obligation or other liability incurred:
    (*i*) By a person residing in India and owed to a person residing outside India; or
    (*ii*) By a person residing outside India.

A person residing in India may hold, own, transfer or invest in foreign currency, foreign security or any immovable property situated outside India if such currency, security or property was acquired, held or owned by such persons when he was residing, outside India or inherited from a person who was residing outside India.

A person residing outside India may hold, own, transfer or invest in Indian currency, security or any immovable property situated in India if such currency, security or property was acquired, held or owned by such person when he was residing in India or inherited from a person who was residing in India.

Without prejudice to the provision of the section, the RBI may, by regulations prohibit, restrict or regulate establishment in India of a branch, office or other place of business by a person residing outside India, for carrying on any activity relating to such branch, office or other place of business.

4.13. Some Terms Used in FEMA

Convertible Currency/Hard Currency

Some currencies are freely convertible, i.e. one can exchange these currencies with any other currency without any restriction. The major ones are: Dollars (USA), Pound Sterling, Euro, DM, Yen, Franc, Lira, etc. These are often referred to as hard currency.

Rupee Trade

India has rupee trade with Nepal and Bhutan, i.e., payments in respect of trade with Nepal and Bhutan are made in Indian Rupees.

Currency

Currency includes all currency notes, postal notes, postal orders, money orders, cheques, drafts , traveller's cheques, letter of credit, Bill of Exchange and Promissory notes, credit cards or such other similar instruments as may be notified by the RBI. The RBI has notified 'debit cards', ATM cards or any other instruments by whatever name known that can be used to create a financial liability as 'currency'.

Notes

Foreign Exchange

Foreign exchange means foreign currency and includes (*i*) deposits, credits, and balances payable in any foreign currency, (*ii*) drafts, traveller's cheques, letter of credit or bill of exchange expressed or drawn in Indian currency but payable in foreign currency, (*iii*) drafts, traveller's cheques letter of credit or bill of exchange expressed drawn by banks, institutions or persons outside India, but payable in Indian currency.

Overseas Corporate Bodies

OCB means any overseas company, partnership, firm, society, and other corporate body predominantly owned directly or indirectly to the extent of at least 60% by the NRIs. It also includes overseas trusts in which at least 60% beneficial interest is irrevocably held by the NRIs.

Current Account Transactions

FEMA has eased the regulation over transactions in foreign exchange and security. Transactions in current account have been made restrictions-free:

No restriction on current account transaction unless specified: Any person can sell or draw foreign exchange to or from the authorized persons if such sale or withdrawal is a current account transaction. Reasonable restrictions on current account transaction can be imposed by the Central government in public interest, in consultation with the RBI.

Current Account Transaction: Section 2(j) states that current account transaction means a transaction other than a capital account transaction. It includes the following:

Payment due in connection with foreign trade, other current businesses, services and short-term banking, and credit facilities in the ordinary course of business.

1. Payment due as interest on loans as net income from investment.
2. Remittances for living expenses of parents, spouse and children residing abroad.
3. Expense in connection with foreign travel, education and medical care of patients, spouse and children.
4. The definition is 'inclusive', i.e., besides aforesaid expenses, any expenditure that is not a 'capital account transaction' will be a current account transaction.

   For example, expenditure incurred on oneself own expenses on foreign travel, education, and medical care are covered as 'current account transaction' not specified above.
5. Any person may sell or withdraw foreign exchange to or from an authorized person if such sale or withdrawl is a current account transaction.

Foreign Currency/Security/Property by Resident

A person residing in India may hold, own, transfer or invest in foreign currency, foreign security or any immovable property situated outside India, if such currency, security or property was acquired, held or owned by such person when he was residing outside India or inherited from a person who was residing outside India [Section 6(4)].

Indian Currency/Security/Property by Non-resident

Notes

A person residing outside India may hold, own transfer or invest in Indian currency, security or any immovable property situated in India if such currency, security or property was acquired, held or owned by such person when he was residing in India or inherited from a person who was residing in India. [Section 6 (4)].

Restrictions on Branches, Offices of Non-residents

The RBI may prohibit, restrict or regulate establishment of branch, office or other place of business by a person residing outside India; for carrying on any activity relating to such branch, office or other place of business. [Section 6(6)]

Enforcement and Penalties

Directorate of Enforcement

The Directorate of Enforcement has been formed to ensure that the provisions of the Act are adhered to. In the Directorate of Enforcement, an Additional Director, a Special Director and Assistant Directors of Enforcement are appointed by the Central government under [Section 36].

These officers can investigate contraventions of FEMA. They have powers similar to those conferred on Income Tax authorities under the Income Tax Act. These powers can be exercised subject to limitations laid down under Income Tax Act. [Section 37].

The following powers are available under the Income Tax Act - powers to requisition books of accounts, etc. power to call for information, power to inspect registers of companies [Sections 131 to 136 of Income Tax Act].

Penalties under the Act

An Adjudicating Authority appointed by the Central Government under FEMA can impose penalties for violating any provision of the Act or contravention of any rule, regulation, direction or order issued under the power conferred by the Act.

Departmental Adjudication

The Central government can authorize certain officers as 'Adjudicating Authority' under [Section 16(1)]. Their jurisdiction will be prescribed by the Central government [Section16 (2)]. They can adjudicate cases in respect of violation of FEMA. These officers are quasi-judicial and have to follow the principle of natural justice by giving the opportunity of making representation. The Adjudicating Authority can hold an enquiry only upon receiving a complaint from an authorized officer [Section 16 (3)].

Powers of Adjudicating and Appellate Authorities

The adjudicating authority, Special Director (Appeals) and Appellate Tribunal have the following powers of the civil court:

Notes

1. Summoning witnesses and enforcing attendance of any person and examining them on oath.
2. Requiring discovery and production of any document.
3. Receiving evidence on affidavits.
4. Requisition of any public record or document or copy of such record/ document from any office (subject to sections 123 and 124 of the Indian Evidence Act).
5. Reviewing its decisions.
6. Dismissing a representation of default or deciding it exparte.
7. Setting aside any order of any representation for default or any order passed by it exparte.
8. Any other matter as may be prescribed by the Central government.

Penalties

If any person contravenes any provision of the Act, he shall be liable for a penalty upto thrice the sum involved in such contravention where such amount is quantifiable, or up to rupees two lakh where the amount is not quantifiable, and where such contravention is a continuing one. Further penalty may extend to rupees five thousand for every day after the first day during which the contravention continues.

Any Adjudicating Authority adjudging any contravention under sub-section (1) may, if he thinks fit, in addition to any penalty that he may impose for such contravention, direct that any currency, security or any other money or property in respect of which the contravention has taken place, shall be confiscated to the Central government and further direct that the foreign exchange holdings, if any, of the persons committing the contraventions or any part thereof, shall be brought back into India or shall be retained outside India in accordance with the directions made in this behalf.

STOCK EXCHANGES AND ITS REGULATION

4.14. Introduction

Indian Capital Markets are regulated and monitored by the Ministry of Finance, The Securities and Exchange Board of India and The Reserve Bank of India.

The Ministry of Finance regulates through the Department of Economic Affairs – Capital Markets Division. The division is responsible for formulating the policies related to the orderly growth and development of the securities markets (i.e. share, debt and derivatives) as well as protecting the interest of the investors.

4.15. Stock Exchange and the SEBI

The emergence of Capital Markets can be traced back to the second half of the eighteenth century when the transactions were limited to loan stock transactions of the East India Company. By 1830, some corporate stocks had emerged due to the economic boom and establishment of textile mills. A Stock Exchange means anybody of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities.

Notes

The Bombay Stock Exchange was formalized in 1875 with the establishment of 'Native Share and Share Brokers Association'. The Stock Exchanges of Calcutta and Madras were established in 1908 and the Delhi Stock Exchange in 1947. There are 23 stock exchanges in India and their organization varies. Some are public limited companies (15), while others are limited by guarantees (5) or are voluntary non-profit making organizations.

In the period of 1994–1995, the number of stock exchanges went up from 7 to 22. In March 2000, the number of stock exchanges increased to 23 with the formation of Inter Connected Stock Exchanges of India Ltd. (ICSEL), the number of listed companies from 1125 to 9477 and the market value of listed companies from ₹ 971 crore to ₹ 6,39,575 crore.

Management of Stock Exchange

The Stock Exchange is managed by a Governing Body which consists of a President, a Vice-President, Executive Director, Elected Directors, Public Representatives and Nominees of the Government. The executive functions are discharged by the Executive Director or Secretary.

4.16. Regulation of Stock Exchange

The Union Government enacted the Securities Contract (Regulation) Act in 1956 (SCR Act) for the regulation of stock exchanges and contracts in securities traded. The SCR Act and the Securities Contracts (Regulation) Rules (1957) constitute the legal framework for the regulation of stock exchanges and protection of the interest of investors.

The Securities and Exchange Board of India Act, 1992 provides for the establishment of the Securities and Exchange Board of India (SEBI) to protect the interest of securities and to promote the development of and to regulate the securities market.

4.17. Definition

Under the SCR Act, an exchange is defined as any body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities. The SCR says that a stock exchange must be recognized by the government.

According to this Act, securities include: (*i*) Shares, scrips, stocks, bonds, debentures, stock or other marketable securities of a like nature in or of any incorporated company or body corporate; (*ii*) Government securities or such other instruments as may be declared by the Central government to be securities, and (*iii*) right of interest in securities.

Stock exchange is regarded as "an essential concomitant of the capitalistic system of economy. It is indispensable for the proper functioning of corporate enterprise. It brings together large amounts of capital necessary for the economic progress of a country. It is the citadel of the capital and the pivot of money market.

It provides necessary mobility to capital and directs the flow of capital into profitable and successful enterprise. It is the barometer of general economic progress in a country and exerts a powerful and significant influence as a depressant or stimulant of business activity. It may be defined as "the place or market where securities of joint stock companies and of government or semi-government bodies are dealt in". (S.C. Kuchal, Corporation Finance: Principles and Problems, Chaitanya Publishing Co., Allahabad, 1976., p. 261)

Notes

4.18. Major Stock Exchanges of India

Bombay Stock Exchange

The Bombay Stock Exchange is one of the oldest stock exchanges of India and Asia and it is also one of the biggest stock exchanges of the world. It is said to be the nerve of the Indian economy which reveals the health of economy. The Bombay Stock Exchange had a turnover of ₹ 6,8,028 crore and a market capitalization of ₹ 9,12,842 crore in 1999-2000. Its business is no more confined to Mumbai alone. In March 2000 it had 275 cities covered by the BOLT network and an increase in the number of Trader Work Stations to 3803. Its daily turnover had increased from ₹ 11 crore in 1979-80 to ₹ 4587 crore in 2000-01.

It was established in 1857 and at that time its membership fee was just ₹ 1. It increased to ₹ 5 in 1877, ₹ 1000 in 1896, ₹ 2,500 in 1916, ₹ 6,600 in 1929, and ₹ 62,000 during post World War II period. It was more than ₹ 3 crore in 1992, and was about ₹ 2 crore in 1997.

The BSE introduced Bombay On-Line Trading (BOLT) System on January 19, 1995. It provides a quote-driven automated trading facility with an order book functioning as an auxiliary jobber. The process of transferring the equity scrips listed on the BSE from trading in the ring to the BOLT system was completed on July 3, 1995. The BSE began debt trading also on the BOLT system from June 26, 1995 in respect of 60 actively traded debentures.

National Stock Exchange

The NSE was incorporated in November 1992 with an equity capital of ₹ 25 crore. It is sponsored by IDBI and co-sponsored by other term-lending institutions, LIC, GIC, other insurance companies, banks and financial institutions, viz., SBI Capital Market Ltd., Infrastructure Leasing and Financial Services Ltd.(ILFS), Stock Holding Corporations Ltd. (SHCL), and the International Securities Consultancy (ISC) of Hong Kong which have helped in setting up of the NSE. NSE has a fully automated, electronic, screen-based trading system through which it has overcome geographical barrier.

The market capitalization of NSE was ₹ 10,20,426 crore on March 1, 2000. The objectives of NSE are:

- To provide fair, efficient and transparent nationwide trading facility for equities, debt instrument and hybrids.
- To provide access to investor all over the country through an appropriate communication network.

- To enable shorter settlement cycles and book entry settlement systems.
- To bring the Indian stock market in line with international markets.
- To promote the secondary market in debt instruments such as government and corporate bonds.

Notes

NSR has an order-driven market and it allows members to trade through their office through communication networks. NSE is the first exchange in India to introduce mark to market system of margin which reduced the risk of default by members.

4.19. Over the Counter Exchange of India (OTCEI)

The OTCEI is primarily meant for small sized companies and small investors. This exchange has the advantages of transparency, fast settlements and potential to reach the nooks and corners of the country. OTCEI was modelled on National Association of Securities Dealers Automated Quotation System (NASDAQ) in the US. In the USA all off-exchange trading was referred to as the Over the Counter (OTC) Market.

OTCEI was incorporated as a company in 1990 under the Companies Act. It became operational in 1992 and was the first stock exchange in India to introduce screen based automated ring less trading system. It is promoted by the UTI, ICICI, IDBI, IFCI, LIC, GIC, SBI Caps, and CANBANK as a company under Section 25 of the Companies Act 1956, with its headquarters at Mumbai.

Its objective are: (*a*) to help companies raise capital from the market at the cheapest costs and on optimal terms, (*b*) to help investors to access capital market safely and conveniently, (*c*) to cater to the needs of the companies which cannot be listed on other official exchange, (*d*) to eliminate the problems of illiquid securities, delayed settlements, and unfair prices faced by the investors.

Apart from the above stock exchanges, there are other national and regional stock exchanges in:

1. Ahmedabad
2. Bengaluru
3. Bhubaneshwar
4. Kolkata
5. Kochi
6. Coimbatore
7. Delhi
8. Guwahati
9. Hyderabad
10. Jaipur
11. Ludhiana
12. Madhya Pradesh
13. Chennai
14. Magadh
15. Mangalore
16. Saurashtra-Kutch
17. Uttar Pradesh
18. Vadodara
19. Pune

Recognition of Stock Exchange

The Securities Contract Regulation Act, 1956 provides inter alia for recognition of stock exchanges and regulation of their functioning, licensing dealers, recognition of contracts, controlling speculation, restricting rights of equitable holders of shares and empowering the government to compel any public limited company to get its shares listed.

Under the Securities Contract Regulation Act, the government has promulgated the Securities Contract (Rules) 1957 for carrying into effect the objects of legislations. The rules are statutory and constitute a code of standardized regulations applicable to all recognized exchanges.

Notes

4.20. Listing of Securities

Listing of Securities on a recognized stock exchange means that they are admitted on a recognized stock exchange which provides a forum for purchase and sale of securities.

According to Section 73 of the Companies Act, 1956, every company intending to offer shares or debentures to the public for subscription by issue of a prospectus has to first make an application to one or more recognized stock exchanges for their listing.

Obligation on Listed Companies

Listed companies have to follow the following obligations:

1. Subject themselves to various regulatory measures of SEBI and stock exchanges.
2. Submit required books, documents and papers and disclose any other information which the stock exchange asks for;
3. Send to all shareholders the notices of Annual General Meetings, Annual Reports etc. and
4. Place their securities with the public.

Stock Brokers

Stock Brokers are members of recognized stock exchanges which buy, sell or otherwise deal in securities. For a broker to deal in securities on a recognized stock exchange, it is obligatory that he should be registered as a stock broker with the SEBI.

Sub-Brokers

A sub-broker is not a member of a stock exchange. He acts as an agent of a stock broker or otherwise assist the investor in buying, selling or dealing in securities through such stock broker. For dealing in securities, a sub-broker must obtain a certificate of registration from the SEBI.

Stock Exchange Operations

1. ***Bulls and Bear:*** A bull is a buyer in the stock market. He is optimistic about the security prices. A bear is a seller of securities. His expectation is that the market would go down. When a bear sells without owning the shares, it is called short trade.
2. ***Order/Customer Driven and Quote/Dealer Driven Trading System:*** Trading in a stock exchange takes place either on the basis of the auction

Notes

system on a trading floor which is order-driven or customer driven or a broker-dealer market which is quote-driven or dealer–driven. In an order-driven system, customers buy and sell orders and reach at central point where they are matched. In a quote driven system dealers compete to give customers the best price.

3. ***Market Maker:*** Market makers make both bid and offer at the same time. The quoted price they would charge from a prospective buyer is offer price or asking price. The quoted price which they would pay to a prospective seller of a security is known as bid price.
4. ***Margin Trading:*** When investors buy securities on margin, they buy some shares with cash and borrow from the broker to pay for additional shares, using the paid shares as collateral. The margin customer has to sign a margin agreement, pledging securities as loan collateral.

To lend the clients margined securities, the brokers also ask the customers to sign a stock loan consent form.

4.21. Badla System/Carry Forward Transactions

The Badla System involves trading for clearing with a facility of carrying forward the transaction from one settlement period to another. They don't pay the entire amount at the time of the purchase but against the security of blank transfer deed and share certificates. The Badla rates were fixed on the basis of demand and supply conditions and were on a fortnightly basis. Badla led to high speculative activity which is why this system was banned by the SEBI since December 1993 and later was introduced in a modified manner. Badla system involves the following:

1. Transfer of market position
2. Stock lending/short selling
3. Borrowing/lending in money market.

1. **Transfer of Market Position:** Carry forward facility means that the buyer/seller can either settle the transactions at the end of a settlement period by actual payment/receipt and acceptance/transfer of the security or carry forward the transactions from one settlement period to another by reversing the transactions.
2. **Short Lending/Short Selling:** Short sellers are those who sell shares without owning them. Thus they provide scope for higher investment. In a falling market, the short seller has to purchase to cover his sales position. Similarly, in a rising market those who have contracted to purchase, have to sell securities to square their position, thus arresting further rise in share prices.

   In November 18, 1996, the SEBI decided to make it mandatory for short sellers to report their short sales position at the end of each day.
3. **Borrowing/Lending in Money Market:** In the Badla system both bulls and bears either need resources to cover their position till the next settlement or have surplus resources. As a result, in most cases, either they have to borrow from the money market or turn into lenders to the money market.

Revised Forward Trading System

The SEBI introduced modified forward trading system on October 6, 1995 effective from October 9, 1995. Capital adequacy norms of 3% had been stipulated for individual brokers and 6% for corporate/institutional brokers. Due to implementation of capital adequacy norms, the limit of 25% of the turnover imposed on carry forward deals by the brokers has been removed.

Instead of monthly audit, the brokers are now allowed self-certification on their status on settlements. The SEBI has reserved the right to re-check the certification. Now transactions can be carried forward for a maximum of 90 days, but squaring off is permitted only up to fifth settlement, i.e., 75 days. Transactions remaining open at the expiry of this time limit have to be compulsorily settled by delivery or payment as the case may be.

Stock exchanges are allowed to resume forward trading/carry forward transactions only after permission from the SEBI. The permission is granted only if the stock exchange has screen-based trading, effective monitoring, surveillance and reporting system and fulfils other infrastructural requirements.

Derivatives Trading

- **Derivatives:** These are financial instruments that are valued according to the expected price movements of an underlying asset, which may be a commodity, currency or a security. Examples of derivatives are futures, options, swaps, etc.
- **Futures:** These are agreements to buy or sell a fixed quantity of a particular commodity, currency, or security for delivery at a fixed date in the future at a fixed price. Unlike an option, a future contract involves a definite purchase or sale and not an option to buy or sell.
- **Options:** These are instruments granting the right to buy or sell a fixed quantity of a commodity, currency, security, etc. at a particular date at a particular price (also called exercised price). Unlike futures, the purchaser of an option is not obliged to buy or sell at the exercise price and will only do so if it is profitable; the purchaser may allow the option to lapse, in which case only the initial purchase price of the option is lost.
- **Swaps:** These are means by which intending parties can exchange their cash flows, usually through the intermediary of a bank. A Currency Swap will enable parties to exchange the currency they possess for the currency they need. An Interest Rate Swap (IRS) is an agreement between two parties to exchange interest obligations (or receipts) for a given notional principle for a defined period.

4.22. Capital Issues (Contract) Act (CICA), 1947

According to the CICA Act, companies had to obtain prior approval for any new issue, and for pricing or public and rights issue. This act gives powers to Government of India to regulate the timing of new issues by private sector companies, the composition of securities to be issued, interest rates which can be offered on debentures and preference shares, the timing and frequency of bonus issues, the amount of prior allotment to promoters, floatation costs, and the premium charged on securities. Now this Act has been repealed by Capital Issues (Control) Repeal Act, 1992.

4.23. Roles and Function of SEBI

Notes

A major development in the Indian stock market took place in 1988 when Securities and Exchange Board of India (SEBI) was established through an administrative order, on the lines of the Securities and Investment Board of the UK. But it became really powerful in 1992 when the CICA was repealed and the office of Controller of Capital Issues was abolished. The Securities and Exchange Board Act of 1992 provides for the establishment of a board to protect the interest of investors and to promote the development and regulation of the securities market. The Board of the SEBI consists of six members comprising the chairman, two members from the amongst the official of the ministries of the central government dealing with finance and law, two members who are professional and have expertise or special knowledge relating to securities market, and one member form the RBI.

The SEBI is entrusted with the following functions:

- Regulating the business in stock exchanges and any other securities market
- Registering and regulating the working of stock brokers, sub-brokers, share transfer agents, bankers to an issue, merchant bankers, underwriters, portfolio managers, investment advisers and such other intermediaries who may be associated with securities market in any manner
- Registering and regulating the working of collective investment schemes, including mutual funds
- Promoting and regulating self-regulatory organizations:
- Prohibiting fraudulent and unfair trade practices relating to securities market;
- Promoting investors' education and training of intermediaries of securities market
- Prohibiting insider trading in securities
- Regulating substantial acquisition of shares and take-overs and mergers of companies
- Calling for information from, undertaking inspection, conducting inquiries and audits of the stock exchange and intermediaries and self-regulatory organization in the securities market
- Levying fees or other changes for carrying out the above purposes

The SEBI has five operational departments. Besides that it has two more departments—the legal department and the investigation department. Their scope is as follows:

- ***The Primary Market Policy, Intermediaries, Self-Regulatory Organizations (SROs), and Investor Grievances and Guidance Department:*** It looks after all policy matters and regulatory issues in respect of primary market, registration, merchant bankers, portfolio management services, investment advisers, debentures trustees, underwriters, the SROs and investor grievances, guidance, education and association.
- ***The Issue Management and Intermediaries Department:*** It is responsible for vetting of all prospectuses and letters of offer for public and rights issues,

Notes

for coordinating with the primary market policy, for registration, regulation and monitoring of issue-related intermediaries.

- ***The Secondary Market Policy, Operation and Exchange Administration, New Investment Products and Insider Trading Department:*** It is responsible for all policy and regulatory issues of the secondary market and new investment products, registration and monitoring of members of stock exchanges, administration of some of the stock exchanges, market surveillance and monitoring of price movements and insider trading, and the EDP and SEBI's database.
- ***The Secondary Market Exchange Administration, Inspection and Non-member Intermediaries Department:*** It looks after the smaller stock exchanges of Guwahati, Indore, Mangalore, etc. It is also responsible for inspection of all stock exchanges, registration, regulation and monitoring or non-member intermediaries such as sub-brokers.
- ***Institutional Investment, Mergers and Acquisition, Research and Publication, and International Relations and IOSCO Department:*** It looks after policy, registration and monitoring of Foreign Institutional Investors (FIIs), domestic mutual funds, merger and substantial acquisition of shares, and IOSCO (International Organization of Securities Commissions) membership, and research, publication and Annual Report of SEBI.
- ***Legal Department:*** This department looks after all legal matters under the supervision of the General Counsel.
- ***Investigation Department:*** This department carries out inspection and investigation under the supervision of the Chief of Investigation.
- The SEBI has its regional offices at Kolkata, Chennai and Delhi. The SEBI has also formed two non-statutory advisory committees, the Primary Market Advisory Committee and the Secondary Market Advisory Committee with the members from market player, recognized investors associates and other eminent persons. The SEBI is also a member of International Organization of Securities Commissions (IOSCO).

Powers and Scope of the SEBI

The functional area of the SEBI is very wide. It is the rule maker, a custodian, and a watch dog of the security market. In brief, it has the full power to regulate: (*i*) depositors and participants, (*ii*) custodians, (*iii*) debentures trustees and trust deeds, (*iv*) FIIs, (*v*) inside traders, (*vi*) mutual fund, (*vii*) portfolio manager, (*viii*) investment advisers, (*ix*) merchant bankers, (*x*) registrars to issue and share transfer agents, (*xi*) stock brokers and sub-brokers, (*xii*) underwriters, (*xiii*) venture capital funds, and (*xiv*) bankers to issue.

The SEBI can issue guidelines in respect of the following:

- Information disclosure, operational transparency, and investor protection.
- Development of financial institutions.
- Priding of issues.
- Bonus issues.
- Preferential issues.

- Financial instruments.
- Firm allotment and transfer of shares among promoters.

The SEBI is empowered to register any agency or intermediary who may be associated with the securities market, except under and in accordance with the conditions of a certificate of registration issued by the SEBI.

Notes

After the suspension of the CICA (Capital Issues Control Act 1947), the SEBI is now authorized to govern all the matter related to issue of capital. The SCRA also authorizes the SEBI to conduct inquiries into the working of the stock exchange, they are required to submit their annual reports to the SEBI and requires the approval of the SEBI for amending their rules and bye laws; the SEBI can direct them to amend their bye-laws and rules including reconstitution of their governing boards/councils; and it is empowered to license security dealers operating outside their jurisdiction.

The SEBI has been empowered to demand explanation, to summon the attendance and call for documents from all categories of market intermediaries in order to enable it to investigate irregularities, impose penalties, and initiate prosecution. It is also empowered to notify its regulations and file complaints in courts without the prior approval of the Government of India.

Certain Guidelines and Reforms Introduced by the SEBI

Primary Securities Market

1. The issues of capital no longer requires any consent from any authority for making issue and for pricing it.
2. The SEBI raised the standards of disclosure in public issues and enhanced the transparency.
3. The offer document is now made public even at the draft stage.
4. Companies without track record making first issue can price the issue at par only. At the first issue companies are free to price their securities, provided they have shown net profits in the immediately preceding three years, subject to their fulfilling the existing disclosure requirements.
5. Companies with three years' track record or companies without track record, but promoted by companies with five years of track record are free to price the issues. They can list the shares on a stock exchange.
6. Not less than 20% of equity (issued) should be offered to public.
7. For issues above ₹ 100 crore, book building requirement has been introduced.
8. The pricing of preferential allotment scheme, a minimum of 50% of the net offer to the public is to be reserved for individual investors applying for securities not exceeding 1000 securities, and the remaining part can be allotted to applications for more than 1,000 securities.
9. Draft prospectus will be vetted by the SEBI to ensure adequacy of disclosure.
10. Bankers to an issue and portfolio managers have to be registered with the SEBI.

11. Existing listed companies are allowed to raise fresh capital by freely pricing their further issues. However, price should be determined in consultation with the lead managers to the issues. The high and low prices for the last two years should be indicated in the offer document. The draft proposal will be vetted by SEBI to ensure adequacy of disclosure.

4.24. Secondary Market and Various Intermediaries

1. The governing body and various committees of Stock Exchanges (SEs) have been recognized, restructured and broad based.
2. Inspection of all 22 SEs has been carried out to determine, inter alia, the extent of compliance with the directives of the SEBI.
3. Corporate membership of the SE is now allowed, encouraged, and preferred. The Articles of Association of the SEs have been amended so as to increase their membership.
4. All the SEs have been asked to get established with a clearing house or a clearing corporation.
5. The BSE has been asked to reduce its trading period or settlement cycle from 14 to 7 days for B group shares.
6. All the recommendations of the Dave Committee for improving the working of the OTCEI have been accepted.
7. In accordance with the recommendations of G.S. Patel Committee, the BSE has been allowed to introduce a revised carry forward system (CFS) of trading. Other SEs can introduce forward trading only with the prior permission of the SEBI.
8. Brokers are required to segregate the client and its own account.
9. The capital adequacy norms of 3% for individual brokers and 6% for corporate brokers introduced.
10. Both brokers and sub-brokers have been brought within the regulatory fold for the first time now; and the concept of the dual registration of stock brokers with the SEBI and the SEs has been introduced.
11. Panel action can now be taken directly by the SEBI against any member of a stock exchange for violation of any provision of the SEBI Act.
12. It has been mandatory for stockbrokers to disclose the transaction price and brokerage separately in the contract notes issued by them to their clients.
13. Compulsory audit of the brokers' books and filling of the audit reports with the SEBI has now been made mandatory.
14. Insider trading has been prohibited and such trading has been made a criminal offence punishable in accordance with the provision of the SEBI.

Investment Protection Measures

The SEBI has introduced an automated complaints handling system to deal with investor complaints. To create an awareness, the SEBI issues fortnightly press releases, disclosing names to the companies against whom maximum number of complaints have been received. A representative of the SEBI now supervises the allotment of shares process. Besides many other measures, it also issues advertisements frequently to make investors aware of various issues of the securities market and of their rights and remedies.

Notes

Classification of Complaints

The complaints received by the SEBI are categorized in five types:

Type I: Non-receipts of refund orders/allotment letters/stock investment

Type II: Non-receipt of dividend

Type III: Non-receipt of share certificates/bonus shares.

Type IV: Non-receipt of debentures certificate/interest on debentures/ redemption amount of debentures/interest on delayed payment of interest.

Type V: Non-receipt of annual reports, right issue forms/interest on delayed receipt of refund orders/dividends.

Insider Training

Insider training in securities is prohibited by the SEBI under Insider Trading Regulations 1992. Insider training can be defined as the sale or purchase of securities by persons who possess price sensitive information about the company, on account of their fiduciary capacity involving confidence or trust. The SEBI Insider Regulations 1992 defines the insider as any person who is or was connected with company and who is reasonably expected to have access by virtue of such connection, to unpublished price sensitive information with respect to the securities of the company, or who has received or has had access to such unpublished price sensitive information. Broadly, insiders can be of two types: (*a*) Primary Insider, e.g., Directors, stock exchanges, merchant bankers, registrars, brokers of the company, top executives, auditors, banks, etc., (*b*) Secondary insider, e.g., dealers, agents, other employees, etc., (*c*) Others having access to price sensitive information due to their proximity with the company.

The SEBI Insider Regulations, 1992 prohibits insider trading and lays down that no insider should:

1. Either on his own behalf or on behalf of any other person, deals in securities of a company listed on any stock exchange on the basis of any unpublished price sensitive information; or
2. Communicate any unpublished price sensitive information to any person, with or without his or her request for such information except as required in the ordinary course of business or under any law; or
3. Counsel or procure any other person to deal in securities of any company on the basis of unpublished price sensitive information.

Underwriting

Underwriters make a commitment to get the underwritten issue subscribed either by others or by themselves. They agree to take unsubscribed portions of the issue. They render this service for a commission agreed upon between the issuing company and the underwriter subject to the ceiling under the Companies Act.

Underwriter services are available from brokers, investment companies, commercial banks and term-lending institutions. Only such person (an individual, firm or a company) who has obtained certificate of registration from the SEBI, can act as an underwriter. Merchant bankers and stock brokers already have a valid certificate from the SEBI for working as underwriters.

Notes

ECONOMIC POLICY

4.25. Introduction

Economic policy refers to the actions that government take in the economic field. It covers the systems for setting interest rate and government budget as well as the labour market, national ownership and many other areas of government interventions into the economy.

In our Indian mixed economy, there are two types of policies—fiscal policy and monetary policy. Fiscal policy is a government policy concerned with raising revenue and pattern of expenditure while the monetary policy is the economic policy of the government relating to currency and credit money. Industrial policy incorporates fiscal and monetary policies and government's attitude towards public and private sectors, and also regarding foreign capital. Another type of policy is industrial licensing policy; which is govern by the Industries Act, 1951.

4.26. Fiscal Policy

Fiscal policy may be defined as Government policy concerned with raising revenue and pattern of expenditure in order to achieve the objectives of the economic policy. In other words, Governments expenditure and tax-raising policy is called fiscal policy. The revenue can be raised through taxation and other measures. In a developing economy, the objective of the fiscal policy is to accelerate the rate of economic growth, social justice and price stability.

Objective of Fiscal Policy

In our Indian mixed economy, fiscal policy has got the following purposes:

1. ***Economic Development:*** It is used as an instrument for economic development. Undeveloped economies suffer from low per capita income, lesser development and low capital formation. Rich persons use their surplus funds in unproductive activities. Progressive taxation, one of the measures of fiscal policy will force people to save. It will also check wasteful expenditure.
2. ***Distributive Justice:*** Social unrest and class-struggle are the result of economic inequality. It is due to the inequality of income between rich and poor. Industrialists, traders, speculators, smugglers and profiteers, grow richer and the general masses grow poorer. In order to reduce the inequality of income, wealth tax, income tax, gift tax, estate duty, etc. are levied. The revenue received from taxation is transferred to poor people in the form of free medical, health, education, and other welfare features.

3. ***Price Stability:*** Inflation grows in developing economy. The purchasing power of the people increases at faster rate than the increase in the supply of goods. The result is the increase in the price. Inflation badly affects the fixed income group and weaker sections of the economy. The state must intervene to regulate prices.

Notes

The fiscal policy or budgetary policy of Government consists of taxation, public expenditure and management of public debt.

Fiscal Policy Measures

1. Increasing and decreasing government expenditure.
2. Raising or lowering tax rates.
3. Changing mode of financing government expenditure.

Taxation

Both the Central and the State Governments may exercise their powers of taxation, subject to the provisions of the constitution. The guiding principles of taxation policies are economic development, price stability and checking inequality of income.

The Government earns revenue through both tax and non-tax sources. It incurs revenue and capital expenditures. Expenditures can also be classified as developmental and non-developmental expenditure.

The government frames its effective revenue and expenditure policy to correct excess and deficit demand.

4.27. Monetary Policy

Money is the basic component of every monetary policy. Money consists of both currency (money is circulation) and bank money, also known as credit money (Cheques, Bank Drafts, etc). Monetary policy of the Government includes:

(*i*) Money supply, its composition, direction and cost of borrowing, (*ii*) Credit policy, regulating bank reserves, note issue, creating sound banking structure.

Monetary policy may be defined as the *economic policy of the Government relating to currency and credit money.* **According to Radcliffe** "*committee "economic policy of the. Government in the monetary field" is its monetary policy.*

Role of Monetary Policy in an Economy

In a developing economy, the role of the monetary policy is both regulatory and promotional. In a developing economy, the Government has to raise investment through credit expansion and deficit financing. The Government has to incur developmental expenditure. It causes inflation, which results in continuous rise in prices. In this way, it becomes the duty of Government to regulate the monetary supply in such a way that the inflation may be kept within limit.

The Central Government will have to promote financial institutions, which will improve the capital market and speed up the rate of Industrialization. The regulation and promotion of monetary supply has got more significance in developing economy because of:

(i) Absence of organized money market,
(ii) Lesser use of credit money,
(iii) Presence of non-moneterized sector, and
(iv) Low level of per capita Income and investment.

4.28. Industrial Policy

By the term industrial policy we mean the *formulation of principles and rules for the industrialization of the country. Industrial policy incorporates fiscal and monetary policies, the tariff policy, labour policy and Government's attitude towards public and private sectors and also regarding foreign capital.*

At the time of independence the industrial development in India was confined largely to consumer goods industries. As far as capital goods industries were concerned these lagged behind. The country had a narrow industrial base and had to import from pin to locomotive. British Government had adopted the laissez faire policy towards industries, except protection provided to a few industries during the First World War. In 1923, the policy of discriminating protection was followed on the recommendation of fiscal commission.

After independence, it was realized that an appropriate industrial policy of state intervention was essential for the rapid industrialization and development of the Indian Economy. Moreover, for a country like India which has adopted planning for development, industrial policy is important for several reasons.

4.29. Industrial Policy Resolution 1948

Independent India's industrial policy was first announced in 1948. This envisaged a mixed economy with an overall responsibility of the Government for *planned development of industries and their regulation in the interest of the country.* While it reiterated the right, of the state to acquire an industrial undertaking in public interest it reserved an appropriate area for private sector.

1. **Classification of industries:** The industries were divided into four broad categories. In the first category industries like manufacture of arms and ammunitions, production and control of atomic energy, railway transport were to be the exclusive monopoly of the Government of India.

   In the second category the new units could only be set up by the Government and the existing units could be taken over by the Government Industries like coal, iron, and steel, aircraft manufacture, ship-building, mineral oils, etc. were in this category.

   In the third category certain basic industries of importance were included. In case of these industries it was decided that these will be planned and regulated by the Central Government. This category included salt, tractors heavy machinery, machine-tools, fertilizer, cement, sugar, paper, air, and sea transport, etc.

   Remaining industries were left for the fourth category. This category was open to the private sector.

Notes

2. The role of small-scale industries was required and the Government assumed the responsibility to develop it.
3. The concept of mixed economy, i.e. co-existence of both private and public sector was introduced.
4. The Government declared that there will be no nationalization in the next 10 years.
5. Labour participation in management was recognized.
6. As regard foreign capital it was clarified that (*i*) There will be no discrimination between domestic and foreign capital, (*ii*) Reasonable margin, of profit will be allowed, and (*iii*) Due compensation to foreign concerns in case of nationalization.

Industrial Development and Regulation Act was passed In 1951 for the enforcement of the policy. As per the provisions of the act industries being established with a capital of ₹1,00,000 or more needed an industrial licence.

The industrial policy of 1948 was **Stability based.** It aimed at creating industrial peace to encourage private domestic and foreign investment

The policy achieved industrial stability. After certain years it was felt that the industrial policy of 1948 could not achieve rapid industrial development. Thus, the policy was modified and **Development oriented** industrial policy of 1956 was announced.

4.30. Industrial Policy 1956

Since the adoption of first Industrial Policy Resolution in 1948, many significant changes had taken place in the economy: introduction of the constitution in 1950, acceptance of socialistic pattern of society as the national objective by the parliament in 1954, and completion of first five-year plan in March, 1956.

The Second Industrial policy resolution was adopted in *April 1956.*

For providing more employment and equitable distribution of national income the importance of cottage and small-scale industries was recognized.

Industrial Policy Resolution emphasized on the need of *balanced regional development* and *development of technical* and *managerial caders*. Stress was also given to maintain industrial peace by providing *more amenities in incentives* for industrial workers. It was assured, that Government will not discriminate between foreign and Indian units. In case of nationalization of foreign units due compensation will be paid. Foreign capital will be welcomed keeping in view the national interest. Provisions of the policy are summarized herewith:

1. New classification of industries in three categories.
2. Coordinated development of public and private sector.
3. Promotion of village and small-scale industries.
4. Balanced regional development.
5. Workers' participation in management.
6. Unchanged attitude towards foreign capital.

Critical Evaluation of Industrial Policy—1956

(*i*) It laid down economic constitution, of the country.

(*ii*) Permit industrial base with priority in favour of heavy and basic industries.

(*iii*) Adopted Russian model of industrial growth.

(*iv*) Discrimination between the professed and practiced policy. Rapid expansion of public sector, still greater expansion of private industrial monopoly and houses.

Notes

4.31. Industrial Policy 1977

With the change in Government at the centre in 1977 a new industrial policy resolution was adopted in December, 1977 by the *Janta Government*. The main objectives of this industrial policy resolution were step up: (*i*) the rate of Industrial growth, (*ii*) to raise the level of employment, (*iii*) productivity of the workers and (*iv*) to develop more cottage and small-scale industries.

This industrial policy stressed the need of setting up of cottage and small-scale industries widely dispersed in rural areas and small towns. In this policy the government clearly states that what ever can be produced by cottage and small-scale industries must only be produced by them. *Government expanded the list of reserved items for industries for 180 to more than 800 items*. For the development of these industries, it was proposed to set up district industries centre in each district. Like the industrial development bank other financial institutions and the nationalized banks were asked to set up *separate department to deal exclusively* with the *credit requirements* of the small-scale industries.

The area of operation of the *large-scale Industries was limited to basic industries, capital goods industries and high technology industries*. The large houses were asked to rely on internally generated resources for their expansion.

This policy stressed the need of *dispersal, of industries* away from the large metropolitan cities and *simplification of licensing procedures*.

In this policy it was realized that public sector should also be used effectively as a *stabilizing force* for maintaining essential supplies for the consumers.

In this policy resolution it was stressed that workers' *participation in the management* of industries should be encouraged in order to minimize labour unrest.

Under this resolution Government realized the necessity of import of technology in sophisticated and high priority areas, where we have not developed domestic technology and skills.

As far as foreign collaboration was concerned, it was stated that majority interest in ownership and effective control should be in *Indian hands*, except in highly export oriented and sophisticated technology areas.

Government will take all *precautions while taking over the sick units*, so that public money may not be wasted simply for keeping the workers employed.

Critical Appraisal of Industrial Policy, 1977

The industrial, policy of Indian Government professed to provide a new alternative socio-economic framework, but it could not do so. It boasted to develop small-scale and cottage industries rapidly, but allocated only 2% (i.e., 1410 crore) of the total sixth plan outlay of 69,380 crores. Even second five year plan spent 4% of all total outlay on small-scale and village industries. Notable measures taken were as under.

Notes

(i) Setting up of District industries centres

(ii) Beginning import of items reserved for small-scale sector.

(iii) Raising of industrial licensing limit from ₹ one crore to 3 crores.

4.32. Changes in the Industrial Policy Since 1884

The Government of Prime-Minister Late Sh. Rajiv Gandhi has introduced the following major changes:

1. **Liberalization of licensed capacity:** The Government granted automatic increase to those industries which wanted to achieve economics of large-scale due to modernization on January 30,1986. The Government decided to delicence 23 industries for MRTP and FERA companies, provided the company is located in centrally declared backward areas.
2. **New concept of broad banding:** Under the scheme, licenses were issued in terms of broad categories of items such as machine tools, motorized two-wheeler, four-wheeler, paper and paper pulp, chemical and electronics. The compemies could produce any of such items subject to overall licensed capacity.
3. **Raising of asset limit for MRTP Companies:** The limit was raised from ₹20 crores to ₹100 crores. Consequently 112 companies went out of the purview of MRTP act. In December, 1985, 22 companies were delicenced for MRTP and FERA companies.

4.33. Industrial Licensing

Industrial Licensing system means the *control of the government over the location, expansion and setting up of a private industrial undertaking, with a view to channelizing it, in accordance with plan priorities and targets*. The main objectives of Licensing Policy are: (*i*) to check the concentration of economic power in industrial sector, (*ii*) to reduce the regional economic disparities, (*iii*) to encourage cottage, small-scale and medium-sized industries, and (*iv*) to channelize the industrial investment in accordance with plan priorities.

In order to achieve the above mentioned objectives, the Government of India passed following acts or adopted industrial licensing resolution:

Industries (Development and Regulation) Act, 1951

The Industries (Development and Regulation) Act was passed in 1951 to implement the industrial policy resolution of 1948. Under this Act, no new industrial unit could be established, without a license from the Central Govt.

Dr. R.K. Hazari reviewed the working of industrial licensing under the act and pointed out that there was *no follow up of licenses, so that the Govt, knew little about* *the progress in Implementation of licenses.* The industrial licensing did not bring about balanced regional development.

Government of India appointed industrial *Licensing Policy Inquiry Committee in 1967, headed by* **Dr. Dutt**. This committee submitted its report in 1969 and pointed out that there had been a substantial *growth of big business in India*. It revealed that 90% of financial assistance from the term financing institutions had gone to the *few large industrial houses* in the private sector and lesser than 10% to cooperative and public sector. Commercial banks had favoured big business units in advancing loans. Industrial Licensing policy had also *failed to protect the interests of small-scale and medium-sized industries. Backward areas* had also been neglected and thus, the objective of balanced regional development has not been achieved.

Notes

Industrial Licensing Policy, 1970

On the recommendations of **Hazari and Dutt committee**, new Industrial Licensing Policy was announced in 1970. Following are the main features of this policy:

(*i*) Industrial output was divided into five sectors viz. Core Sector, Joint Sector, Medium Sectors, Small-scale and Co-operative sector.

(*ii*) Co-operative sector will be given preference in giving license.

(*iii*) Backward areas will, be preferred while granting new license.

(*iv*) The existing policy of reservation for the small-scale sector was to be continued the area of such reservation was to be extended.

(*iv*) The limit for licensing of new undertakings and substantial expansion of exits units was raised from ₹25 lakhs to ₹ one crore fixed investment subject to other condition.

Liberalization of Industrial Licensing Policy

In 1973, the industrial licensing policy was liberalized and a list of basic, critical a strategic industries was drawn up. Large houses and Foreign concerns were made eligible participate in these industries provided that item was not reserved for production in the public sector as per 1956 Industrial policy resolution and also for the small sector. Co-operatives a small and medium entrepreneur were to be encouraged to participate in the production mass consumption goods.

In **1975**, the Government *further liberalized industrial licensing* policy a delicensed 21 industries and permitted unlimited expansion, beyond the licensed capacities foreign companies and monopoly houses in 30 industries.

In the **1978** Industrial Licensing policy resolution, the limit for taking industrial licer was raised from ₹ one crore to ₹ 3 crores. Licensing system for the import of *capital good* was simplified.

In the **1980** Industrial Licensing Policy, the number of goods reserved for cottage a small-scale industries were increased from **807** to **834**. Licensing procedure was *further simplified* and the maximum time limit of issuing license was reduced from *90 days to days.*

Notes

The Year 1982 was declared the *productivity year* and the industries were allowed increase their productive capacity. The Licensing policy for the year 1983-84 further raise the limit of taking license from ₹ **3 crores to** ₹ **5 crores.** To reduce the problem of region imbalances in industrial sector, Government announced certain concessions to those who set up the industries in backward areas.

Privatization of the Economy

Privatization means removing strict control over private sector and making them free to take necessary decisions. Since independence we accorded top priority to the public sector but the desired result could not be achieved with the encouragement of the public sector. Now the new economic policy tries to expand private sectors. In order to encourage private sector following measures have been adopted:

Measures to Encourage Private Sector in the Economy

(i) *Reduction in the number of reserved public sector industries:* The government through its economic policy reduced the number of industries for public sector from 17 to 4. It means that the private sector can now set up thirteen more industries in different fields.

(ii) *Increasing the share of private sector investment:* It has now been planned to reduce the share of public sector investment to 45%. It increases the share of private sector to 55%.

(iii) *Selling the share of public enterprises:* It has now been decided to increase the participation of general public and workers and selling them the shares of public enterprises.

(iv) *No insistance on conversion:* Now the financial corporations cannot insist the industries for conversion of their loans into equity shares.

4.34. Import Policy

We adopted *restrictive import policy upto 1974* in order to avoid unnecessary burden of foreign exchange. It was also a measure to protect the country from excessive dependence in foreign funds. It was a step towards financial self-reliance. Imports were restricted by the following ways:

(i) High import duties

(ii) Restriction on the imported quantity

(iii) Import substitution.

Since 1981-82 the import policy became more **liberal** as regards quantity and value of imports.

Direction of India's Imports

The relative share of principal supplying countries has been changing from period to period. Some of the important changes have been summarized herewith.

1. ***United Kingdom (UK):*** It was the most important source of imports during colonial period but losing ground since independence. Its share was 19% in 1951-52 but declined to 6.7% in 1990-91. In some years it was as low as 5% and 6%.

2. ***United States of America (USA):*** The share of USA which was 34% in 1950-51 declined to 9% in 1988-89. It has further risen to 12% in 1990-91.

   Though our main imports from USA consisted of food grains, but we have been more or less self-sufficient so we do not import food grains from USA at present.

3. ***Germany:*** During the World War II, trade with Japan ceased. It revived in 1950-51. Import from Germany which was 3% in 1950-51 rose to 10% in 1987-88 and 8% in 1990-91.

4. ***Japan:*** Import from Japan also ceased in the World War II and revived in 1950-51. Its share 3% increased to 4% 1969-70, 9% in 1985-86, 10% in 1987-88 and 7.5% in 1990-91.

5. ***Belgium:*** Imports of rough diamond from Belgium has accorded it an important place. During 1990-91 we imported 6.3% of our imports.

6. ***USSR:*** Though imports from USSR during 1950-51 was negligible, i.e. 0.2% but it increased gradually to 11% in 1969-70, 9% in 1985-86, 6% in 1987-88 and 5.9% in 1990-91. The recent disintegration of USSR has given set back to trade with that country.

7. ***Saudi Arabia, Kuwait, Iran and Iraq:*** The share of these countries in India's imports is increasing. The four countries taken together account for our 11% imports.

   Pakistan, China, Burma, Sri Lanka, UAE and Kenya do not have any significant place in our imports.

4.35. Exports Policy

Composition of Exports

Our traditional exports of jute and cotton which accounted, for 19% and 20% respectively have declined to .9% and 6.5% in 1990-91. Exports of spices also declined from 4.2% in 1950-51 to .7% in 1990-91. During 1950-51 we exported edible oils but now the table has turned now we have started importing edible oils. Tea was also a major item of our exports. Its share during 1950-51 was 13% but it has declined to 3% in 1990-91. We also exported manufactured tobacco. Its share was 2.3% in 1950-51 but it has declined to .8%. Leather and leather manufacture is the only traditional item which has maintained its exports. Its share which was 4% in 1950–51 rose to 8%. Our important exports items are as under:

1. ***Gems and jewellery:*** This item has shown remarkable increase. It has increased from negligible amount in 1950-51 to 5200 crores in 1990-91, i.e., contributing 16% of the total exports. A large part of foreign exchange earnings from exports of gems and jewellery is used for imports of rough diamonds.

2. ***Readymade garments and handicrafts:*** Its share was negligible during 1950-51. Its export started in. 1974-75 and shot up in 1980s. Its exports during 1974-78 was 600 crores, during 1980-85, 1900 crores and it increased to 4,012 crores in 1990-91. Its export occupies second position

Notes

in our exports, next to gems and jewellery but in terms of net foreign exchange it holds top position. Hand made carpets are also the important item of exports. Its share is about 13% at present.

3. ***Engineering goods:*** It includes items like sewing machines, fans, bicycles, electrical and non-electrical machinery, transport equipments and even household appliances. It has been a major item of exports and accounted for 12% in 1990-91, whereas its share has been 9% during 1980s.
4. ***Metallic ores:*** It includes iron, mica and manganese. Its contribution to the total exports is 1050 crores or 3.2% of the total exports. Its exports will have to be cut short, because it is a major element of iron and steel industry. It is never wise to export such exhaustible minerals like iron ore.
5. ***Crude oil:*** During the sixth plan period our annual average export of crude oil was worth 810 crores. We had to export surplus because we did not have required refining capacity. As we have now enough refining capacity, so it is not exported since 1986-87.
6. ***Petroleum products:*** Excess petroleum products have been exported to neighbouring countries like Nepal and Bhutan. It share is almost negligible.
7. ***Fish and fish preparations:*** Its export has increased from 0.4% in 1950–51 to 3% in 1990-91. We have considerable potential for raising the production and exports of fresh water and marine fish. We export fish and fish preparations mainly to Japan.
8. ***Rice and oil cakes:*** Since 1980 rice specially **Basmati** is being exported to gulf countries. Its contribution in our total exports accounted 2% in 1990-91. Oil cakes are being recently exported. Its export was negligible in 1950-51 but now it amounts to 1.4%. Oil cakes are nutrition's feed for cattle, so we should use it for the development of our husbandry.
9. ***Miscellaneous items for exports:*** It includes raw cotton, juices, fruits, vegetables mica chemicals and other allied products.

Table showing Composition of Indian exports

		Percent			
	Commodity/Groups	**1985–86**	**1986–87**	**1987–88**	**1990–91**
(*i*)	Petroleum products	5	3	4	1
(*ii*)	Gems and jewellery	14	17	17	16
(*iii*)	Agro based commodities	12	14	10	12
(*iv*)	Readymade garments	9	11	12	13
(*v*)	Engineering goods	9	9	9	12
(*vi*)	Tea and mate	6	5	4	3
(*vii*)	Iron ore	5	4	3	3
(*viii*)	Leather and leather manufacture including shoes	7	7	7	8

(ix)	Fish and marine products	4	4	3	3
	Rice (Basmati)	-	-	-	25.6
	Oil cakes	-	-	-	2
(x)	Others	29	26	31	1.4

Notes

Export Policy

Initially we adopted the policy of import avoidance and substitution, and did not emphasise on export promotion. The policy did not achieve much. Since 1974-75, it was realized that without growth in the exports it was very difficult to finance the growing imports. Due to the pressure of international monetary agencies and aid giving western countries we had to adopt variety of export promotion.

Export Promotion Measures

(a) *Fiscal Measures:*

1. *Cash assistance* was allowed on export under cash compensatory scheme (CCS). By 1988-89 assistance was available on 260 export items.
2. *Income tax concessions* was granted on profits from exports. In 1988-89 export profit were totally exempted from tax.
3. *Duty free, liberal or concessional import of raw materials* required for export purposes.
4. *Remission of excise duties and indirect taxes* on exported goods.
5. *Introduction of export replenishment scheme* in which exports were allocated foreign exchange for the import of raw materials used in the production of export goods.

(b) *Relaxation of Controls:*

1. *Liberalizations* of industrial licensing for setting up and expansion export oriented units.
2. *Establishment of Export Processing Zones (EPZs)* at Bombay, Kandla, Medra, Fatta, Noida and Cochin. Units located in these zones were allowed free trade with the rest of the world and a tax holiday of five years.
3. *5 years' tax holiday and other concessions* to 100% export oriented units.
4. *Relaxation of control on exports.* Exports of large number of items were decontrolled.
5. *Simplification of export procedure and formalities.*
6. *Identifying sectors and industries (thrust areas)* for promoting the exports.

(c) *Financial Measures:*

1. *Granting loans* on concessional terms for financing exports and production of export goods.

2. *Formation of export-import bank:* The bank has been granting financial assistance at concessional rates of interest to Indian exporters.
3. *Creation of technical development fund* for financing foreign exchange requirements for the import of machinery and technology.
4. *Creation for productivity fund* for improving production technique of export goods.

As a result of fiscal relaxation and financial measures applied for export promotion there has been improvement in our exports earnings, which may be summarised as under:

Ratio of Aggregate Exports to GDP	
Fourth plan (1970–74)	3.7%
Fifth plan (1974–79)	5.4%
1979–80	5.6%
Sixth plan (1980–85)	4.9%
Seventh plan (3 years) (1985–88)	4.4%
1988-89	5.2%
1990-91	6.1%

The above table shows gradual improvement in the export earnings.

Direction of Exports

Direction of Indian exports has been changing from period to period as in the case of imports. It may be summarized as under:

1. ***United Kingdom (UK):*** It was the most important export market in the colonial period. During 1950-51, it accounted for 22% of the total exports but it gradually declined to 7% in 1990-91.
2. ***Union of Soviet Socialist Republic (USSR):*** Its share in 1950-51 was negligible merely .2% of the total exports, but it increased to 16% in 1990-91. The disintegration of USSR has given a set back to Indian export to USSR.
3. ***United States of America (USA):*** The share of USA in the Indian exports market continues to rank significantly. It accounted for 18.5%, the second biggest market for Indian exports in 1950-51. Even in 1990-91 its share stands at 15%.
4. ***Canada:*** Its share in the total exports of India has declined to .9% in 1990-91 as against 2.2% in 1950-51.
5. ***Japan:*** It is at present the third largest market for Indian goods. Its share in the Indian exports is 9.3% as against 1.6% in 1950-51.

Regulation of Foreign Investment

FDI inflow in India is increasing over the past several years. However, there is tremendous potential for absorbing greater flow of FDI in the coming years. Several efforts are being made to attract greater inflow of FDI in the country by taking actions both on policy and implementation front. India needs greater flow of FDI to meet its growing need of developing infrastructure in a big way.

Foreign Direct Investment (FDI)

FDI, is now considered as an important driver of growth in the country. Government of India is, therefore, making all efforts to attract and facilitate FDI from abroad to complement and supplement domestic investment. Non-Resident Indians (NRIs) including Overseas Corporate Bodies (OCBs), predominantly owned by NRIs, are invited to invest in the country.

In order to make the investment in India attractive, investment and returns on them are:

(*i*) Freely repatriable, except where the approval is subject to specific conditions such as lock-in period on original investment, dividend cap, foreign exchange neutrality, etc. as per the notified sectoral policy.

(*ii*). The condition of dividend balancing that was applicable to FDI in 22 specified consumer goods industries stands withdrawn for dividends declared after 14th July 2000, the date on which Press Note No. 7 of 2000 series was issued.

FDI is allowed up to 100% under the automatic route in all activities/sectors except the following which will require approval of the Government:

- Activities/items that require an Industrial License;
- Proposals in which the foreign collaborator has a previous/existing venture/ tie up in India in the same. Prior Government approval for new proposals would be required only in cases where the foreign investor has an existing joint venture, technology transfer, trade mark agreement in the same field. With the amendment of the Press Note 18, joint ventures formed with foreign investment before December 12, 2004 would be considered as "existing JVs" which will fall under the ambit of Press Note 18. The foreign partner in such JV has to obtain a No Objection Certificate (NOC) from the Indian partner for starting new venture in India in the "same" field of activity.
- All proposals relating to acquisition of shares in an existing Indian company by a foreign/NRI investor.
- All proposals falling outside notified sectoral policy/caps or under sectors in which FDI is not permitted.

FDI policy is reviewed on an ongoing basis and measures for its further liberalization are taken. Change in sectoral policy/sectoral equity cap is notified from time to time through Press Notes by the Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy & Promotion. Policy announcement by SIA are subsequently notified by RBI under FEMA.

Automatic Route

(*a*) FDI in sectors/activities under automatic route does not require any prior approval either by the Government or the RBI.

(*b*) The investors are required to notify the Regional office concerned of RBI of receipt of inward remittances within 30 days of such receipt and will have to file the required documents with that office within 30 days after issue of shares to foreign investors.

Notes

(*c*) Foreign investors have to, however, keep in mind that they may invest freely under the Automatic Route described above but where such investment does not conform to policies of Government of India, a specific approval from Government must be sought. For example, there are Government guidelines on location of industrial units, or there are certain items like explosives or liquor that need an industrial license. If the Indian company does not conform to the locational guidelines or needs an Industrial license then it cannot issue shares under the Automatic Route.

(*d*) The present Automatic Route allows Indian companies engaged in all industries except for certain select industries/sectors to issue shares to foreign investors up to 100% of their paid-up capital in Indian companies.

(*e*) There are also some areas where though Automatic Route is available, foreign investors cannot invest beyond a certain percentage of the paid-up capital of the Indian companies or where investment is subject to some other conditions.

Government Approval Route

Government approval is required for FDI in all activities which are not covered in automatic route. Areas/Sectors/Activities hitherto not open to FDI/NRI investment shall continue to be so unless otherwise decided and notified by Government.

An investor has the option to make an application for prior Government approval even when the proposed activity is under the automatic route.

Application in FC-IL form for proposals requiring prior Government's approval should be submitted to FIPB. Applications in plain paper carrying all relevant details are also accepted. There is not fee on such application.

The following information should form part of the proposals submitted to FIPB:

(*a*) Whether the applicant has had or has any previous/existing financial/ technical collaboration or trade mark agreement in India in the same or allied field for which approval has been sought; and

(*b*) If so, details thereof and the justification for proposing the new venture/ technical collaboration (including trade marks).

(*c*) Foreign investment proposals received in the DEA are placed before the Foreign Investment Promotion Board (FIPB) within 15 days of receipt. The decision of the Government in all cases is usually conveyed by the DEA within 30 days.

(*d*) Applications can also be submitted with Indian Missions abroad who will forward them to the Department of Economic Affairs for further processing.

FDI is not permissible in the following cases

(*i*) Lottery Business, or

(*ii*) Gambling and Betting, or

(*iii*) Business of Chit Fund

(iv) Nidhi Company

(v) Housing and Real Estate Business (to a certain extent has been opened. For details please see note on Construction)

(vi) Trading in Transferable Development Rights (TDRs)

(vii) Retail Trading (discussions are being held to open this area-B2B and Cash & Carry are permitted)

(viii) Atomic Energy

(ix) Agricultural or plantation activities or Agriculture (excluding Floriculture, Horticulture, Development of Seeds, Animal Husbandry, Pisiculture and Cultivation of Vegetables, Mushrooms, etc. under controlled conditions and services related to agro and allied sectors) and Plantations (other than Tea plantations)

Notes

General Permission of RBI under FEMA

(a) General permission has been granted by RBI under Foreign Exchange Management Act (FEMA) in respect of proposals approved by the Government.

(b) Indian companies getting foreign investment approval through FIPB route do not require any further clearance from RBI. The clearance is not required for the purpose of receiving inward remittance and issue of shares to the foreign investors.

(c) The companies are, however, required to notify the Regional office concerned of the RBI of receipt of inward remittances within 30 days of such receipt.

(d) They also need to file the required documents with the concerned Regional offices of the RBI within 30 days after issue of shares to the foreign investors or NRIs.

FDI in EOUs/SEZs/Industrial Park/EHTP/STP/Special Economic Zones (SEZs)

(a) FDI is permitted up to 100% under automatic route for setting up of special Economic Zone and Export oriented units (EOU) subject to sectoral norms.

(b) Units in SEZ qualify for approval through automatic route subject to sectoral norms.

(c) Details about the type of activities permitted are available in the Foreign Trade Policy issued by Department of Commerce. Proposals not covered under the automatic route require approval by FIPB.

(d) Proposals not covered under the automatic route would be considered and approved by FIPB.

FDI through Capitalization of Import Payables

FDI inflows through capitalization of import payables are required to be under the following modes;

(i) By inward remittances through normal banking channels or

(ii) By debit to the specified account of person concerned maintained in an authorized dealer/authorized bank.

Notes

Issue of equity to non-residents against other modes of FDI inflows or in kind is not permissible.

However, Issue of equity shares against lump sum fee, royalty payable and external commercial borrowings (ECBs) in convertible foreign currency are permitted, subject to meeting all applicable tax liabilities and sector specific guidelines.

FDI in SSI Units

Capital Norm: A small-scale unit cannot have more than 24 per cent equity in its paid up capital from any industrial undertaking, either foreign or domestic. If the equity from another company (including foreign equity) exceeds 24 per cent, even if the investment in plant and machinery in the unit does not exceed Rs 1 crore, the unit loses its small-scale status.

Locational Restrictions: Industrial undertakings are free to select the location of a project. Industrial License is required if the proposed location is within 25 km of the Standard Urban Area limits of 23 city having population of 1 million as per 1991 census.

Locational restriction does not apply:

(i) If the unit were to be located in an area designated as an "industrial area" before the 25th July, 1991.

(ii) Electronics, Computer software and Printing and any other industry, which may be notified in future as "non-polluting industry", are exempt from such locational restriction.

The location of industrial units is subject to applicable local zoning and land use regulations and environmental regulations.

Foreign Collaboration Agreements (Technology Agreement)

In order to promote technological capability in Indian industry, acquisition of foreign technology is encouraged through foreign technology collaboration agreements.

Foreign technology agreements are permitted either through automatic route or with prior approval from the Government.

Scope of Technology Collaboration

The terms of payment under foreign technology collaboration, which are eligible for approval through the automatic route and by the Government approval route are:

- Technical know-how fees, Payment for design and drawing, Payment for engineering service and royalty.

Payments for hiring of foreign technicians, Deputation of Indian technicians abroad, and Testing of indigenous raw material, products, indigenously developed technology in foreign countries are governed by separate RBI procedures and rules and are not covered by the foreign technology collaboration approval. Similarly, payments for imports of plant and machinery and raw material are also not covered by the foreign technology collaboration approval.

Notes

Automatic Route

Government has delegated powers to Reserve Bank of India to allow payments for foreign technology collaboration by Indian companies under automatic route subject to the following limits:

(i) The lump sum payments not exceeding US $ 2 Million;

(ii) Royalty payable being limited to 5 per cent for domestic sales and 8 per cent for exports. The aforesaid royalty limits are net of taxes and are calculated according to standard conditions.

Terms of payment qualifying for automatic route is irrespective of the extent of foreign equity in the Indian company.

POLICY TOWARDS SICK UNITS

4.36. Definition

According to the Reserve Bank of India (RBI) a small-scale unit is considered as a sick unit if it has "incurred cash loss in the previous accounting year and is likely to continue to incur cash loss in the current accounting year and has on erosion on account of cumulative cash losses to the extent of 50 per cent of those of its net worth".

According to ICICI, a sick industry is one whose financial viability is threatened by adverse factors present and continuing. The adverse factor might relate to management, market fiscal burden, labour relations or any other. When the impact of factors reaches a point where a company begins to, incurred cash losses leading to erosion of its funds, there is threat to its financial stability.

The sick industrial companies (special provision) act 1985, defined sickness in terms of "cash losses for two consecutive financial years and accumulated loses equaling or exceeding the net worth of the company at the end of the second financial year".

4.37. Symptoms of Sickness

The persistence of many signals for a long period of time is termed as symptoms of sickness, the various symptoms ultimately reflect on the plant performance (capacity utilization, financial capital ratio, share market value practices in the diverse areas of finance, production, marketing and labour relation in the industry). Some of the important symptoms are:

1. Deteriorating financial ratio
2. Delay in the audit of annual account
3. Persisting shortage of cash flow
4. Continuous tumble in the price of the shares
5. Delay in the payment of statutory dues
6. Widespread use of creative accounting

7. Frequent request for loans
8. Morale degration of the employees
9. Desperation amongst the top and middle managerial level.

Notes

However, the financial ratios, in each case cannot be considered as true symptoms of industrial sickness.

It is over to two main factors:

1. **The sickness prone unit:** To present a better and sound image, one must do lot of window dressing.
2. **Financial data:** It may be available after a gap of one year.

However, an early identification of symptoms makes the task of detecting easier and fast.

4.38. Causes

Some of the common causes leading to failing health of small units are discussed as follows:

1. **Problems in Production:**

   Problems in production may arise due to:

   (*i*) Machine breakdowns, poor maintenance
   (*ii*) Poor quality of raw materials
   (*iii*) Poor labour productivity
   (*iv*) Power shortage
   (*v*) Lack of production, planning, and control
   (*vi*) Delayed supplies from sub-contractors
   (*vii*) Poor industrial relations.

2. **Lack of Orders:**

   A unit may suffer as it does not get enough orders to match its anticipated or targeted production targets.

   The lack of orders could be due to any of the following reasons:

   (*i*) Competition
   (*ii*) Recession
   (*iii*) Low quality technical incompetence
   (*iv*) Irregular deliveries
   (*v*) Poor marketing efforts
   (*vi*) Obsolescence

3. **Lack of Raw Materials:**

   Diminished or poor supply of raw materials could be due to:

   (i) National or regional shortage
   (ii) High cost
   (iii) Overdue payments to suppliers
   (iv) Poor quality

(v) Uncertain suppliers

(vi) Lack of planning.

4. **Cash Crunch:**

This arises due to any of the following:

(*i*) Deliberate diversion of funds

(*ii*) Well-intentioned but unwise diversion (e.g., unplanned diversification)

(*iii*) Poor collections

(*iv*) Unplanned payments to creditors

(*v*) High inventory

(*vi*) Unproductive and flamboyant expenditure

5. **Increased Cost of Raw Material:**

This is a common cause that may lead to the sickness of a unit. It could be due to:

(*i*) Increased costs not covered in selling prices due to faulty costing

(*ii*) Large orders booked at fixed prices in an inflationary market

(*iii*) High material wastage

(*iv*) High inventory costs.

6. **Increased Overhead Costs:**

Increased overhead costs may arise due to:

(*i*) Inefficient production

(*ii*) Unutilized capacity

(*iii*) Heavy borrowings, high interest charges

(*iv*) Increased administration or selling costs

(*v*) Unplanned capital expenditure

(*vi*) New product development or diversification.

Notes

4.39. Criteria to Identify Sickness/Incipient Sickness

In order to measure sickness, information on, whether the unit has outstanding source(s) of the loan (institutional/non-institutional), whether there was delay in institutional loan for more than 12 months and whether there was erosion in the extent of 50 per cent of the net worth during the previous accounting year, was collected in the Census.

On the basis of this information, the definition given by the Kohli Committee measure sickness. In other to measure incipient sickness, the continuous decline in three consecutive years was identified as a suitable indicator, and so information given was continuous decline in gross output compared to the previous two financial data collected.

Thus, the following criteria was adapted to identity sick/incipient sick census:

(*i*) Continuous decline in gross output compared to the previous two financial years.

(*ii*) Delay in repayment of institutional loan, for more than 12 months, and

(*iii*) Erosion in the net worth to the extent of 50 per cent of the net worth during the accounting year.

Notes

Sickness/incipient being a leading question, the enumerators were asked from the entrepreneurs of the units satisfying at least one of the above criteria, and has not been running satisfactorily.

4.40. Reasons and their Consequences of Sickness

Reasons:

It cannot be attributed to a single factor alone. In fact, it is cumulative effect of many factors interrelated/independent of each other.

The main reasons for the sickness can be categoried as:

1. External or Exogenous causes
2. Internal or Endogenous causes

1. Exogenous Causes

There may be several exogenous factors causing a unit sick. It may vary from time to time for industry to industry and/or even one time to other or the same industry. The important external reasons may be:

(*i*) Shortage of financial resources

(*ii*) Labour unrest/strike

(*iii*) Lack of demands of the product

(*iv*) Change in industrial policy

(*v*) Poor inventory maintenance

(*vi*) Untimely supply of/purchase of raw materials

(*vii*) Natural calamities like food, earthquake, drought, etc.

(*viii*) Recessionary trends hovering the industry.

All the above factors can be broadly classified as:

(*i*) Governmental policy

(*ii*) Natural calamities

(*iii*) Environmental conditions

2. Endogenous Reasons

These are mainly due to some internal deficiencies in several functional areas, viz. personnel, production, marketing, management and/or finance.

Majority of the projects (54%) are found to be sick due to internal reasons like poor management, labour problems, operative problems, poor implementation and/or lack of sufficient working capital.

Stages of Sickness

Fist Stage

It happens during planning and construction stage. The unit may be located at an uneconomical location, adopted an inefficient method of production and/or planned to produce an obsolete item.

Second Stage

Unit might have committed some mistakes during recruitment, training of the workers, unestimation of various inputs (fund, labour, power, water, etc.). It cannot be corrected easily at late hours.

Third Stage

It may arise even if the unit is in full swing. It may be due to demand of product which might have changed. New technologies might have taken place and/or new or more competitors have entered in the market.

Consequences

The main consequences of enterprises sickness are:

1. Emergence of industrial unrest
2. Wastage of resources
3. Loss of tax payers revenues
4. Financial loss to banks/financial institutions
5. Loss of employment opportunities
6. Adverse effect on prospective entrepreneurs
7. Hardship to the public
8. Market fluctuation.

Various consequences of industrial sickness:

(*i*) Huge Financial Losses to the Banks and the Financial Institutions

(*ii*) Rise of Industrial Unrest

(*iii*) Adverse Effect on Prospective Investors and Entrepreneurs

(*iv*) Loss of Revenue

(*v*) Unemployment Problem

(*vi*) Scarce Resource

4.41. Prevention of Sickness

Term Lending Institutions, Commercial Banks, Entrepreneurship and the Government

These are:

1. Term lending institutions,
2. Commercial banks,

Notes

3. Entrepreneurs, and
4. The government.

1. Term Lending Institutions

Notes

If the term lending institutions take the following steps, sickness can be prevented:

(*i*) Proper appraisal of management of the project

(*ii*) Ascertaining the marketability of the end products of the unit before lending

(*iii*) Extra care in assessing the suitability, technical feasibility of plant and machinery if it is second-hand one

(*iv*) Ensuring the timely implementation of the project.

2. Commercial Banks

Since the commercial banks are the ones providing resources for serving successfully, they have to take the following steps to prevent sickness:

(*i*) Noticing that the withdrawals in the account do not exceed the permissible drawing power continuously over a period of time

(*ii*) Frequent scrutiny of the ledger account with the master intelligences

(*iii*) Frequent interaction with the entrepreneur

3. The Entrepreneur

The successful running of the unit surely depends on the ability and sustainable effort of the entrepreneur. It is the entrepreneur who conceives, implements, and manages the project to avert sickness in the unit.

They can prevent sickness by:

(*i*) Selecting the supplier of the machinery with care

(*ii*) Doing the homework properly

(*iii*) Paying adequate attention to the deficiencies in the unit

(*iv*) Careful selection of the partners.

4. The Government

The Government too can help in controlling sickness by not making sudden changes in the industrial policy such as – the following, which may destabilize the small units:

(*i*) Several changes related to existing units

(*ii*) Policy to discourage new investment

(*iii*) Withdrawal of subsidies

(*iv*) Opening up of reserved items for big industries.

4.42. Summary

- An act to provide, keeping in view of the economic development of the country, for the establishment of a commission to prevent practices having adverse effect on competition, to promote and sustain competition in markets, to protect the interests of consumers and to ensure freedom of trade carried on by other participants in markets, in India, and for matters connected therewith or incidental thereto.
- The Competition Act was repealed in 2009. The Act has been succeeded by the competition Act 2002. The competition bill was introduced in Lok Sabha by Finance Minister Arun Jaitley on 6 august 2001.
- The major elements of competition low: (1) Anti-competitive agreement, (2) Abuse of dominance; (3) Merger, amalgamations and acquisitions control.
- Remedies under the competition Act, 2002: (1) Jurisdiction, (2) Competition Advocacy, (3) Confidentiality, (4) Penalties.
- FEMA (Foreign Exchange Management Act) is a regulatory mechanism that enables the Reserve Bank of India and the Central government to pass regulations and rules relating to foreign exchange in tune with the Foreign Trade Policy of India.
- The Foreign Exchange Regulation Act was introduced in 1947, later replaced with the Foreign Exchange Regulation Act, 1973 (FERA). This was further replaced by FEMA, which came into effect from June 1, 2000.
- The purpose of FEMA is to consolidate and amend the law relating to foreign exchange with the objective of facilitating external trade and payment and for promoting the orderly development and maintenance of the foreign exchange market in India. FEMA envisages that the RBI will have key role in the management of foreign exchange. The RBI delegates its power to authorized persons to deal in foreign exchange with suitable guidelines.
- FEMA allows free transactions on current account subject to reasonable restrictions that may be imposed. It also eases the regulation regarding the capital account transaction.
- Regulations relating to export of goods and services from India are contained in the Foreign Exchange Management (Export of Goods and Services) Regulations 2000. Under FEMA, restrictions are only on the physical possessions and retention of foreign currency and not in respect of foreign currency kept in permissible accounts with authorized dealers (banks).
- FEMA has eased the regulation over transactions in foreign exchange and security. The Directorate of Enforcement has been formed to ensure that the provisions of the Act are adhered to.
- The emergence of capital markets can be traced back to the second half of the eighteenth century when the transactions were limited to loan stock transactions of the East India Company. The Bombay Stock Exchange was formalized in 1875 with the establishment of 'Native Share and Share Brokers Association'. The stock exchanges of Calcutta and Madras were established in 1908 and the Delhi Stock Exchange in 1947. There are 23 stock exchanges in India and their organization varies. Some are public limited companies (15), while others are limited by guarantees (5) or are voluntary non-profit making organizations.

Notes

Notes

- The SCR Act and the Securities Contracts (Regulation) Rules (1957) constitute the legal framework for the regulation of Stock Exchanges and protection of the interest of investors.
- The Securities and Exchange Board of India Act, 1992 provides for the establishment of the Securities and Exchange Board of India (SEBI) to protect the interest of securities and to promote the development of and to regulate the securities market.
- Under the SCR Act, an exchange is defined as anybody of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities.
- The Bombay Stock Exchange is one of the oldest stock exchanges of India and Asia, and it is also one of the biggest of the world. The Bombay Stock Exchange had a turnover of ₹ 68,028 crore and a market capitalization of ₹ 9,12,842 crore in 1999-2000. The NSE was incorporated in November 1992 with an equity capital of ₹ 25 crore. The NSE has a fully automated, electronic, screen-based trading system. The OTCEI is primarily meant for small size companies and small investors. This exchange has the advantages of transparency, fast settlements and potential to reach the nooks and corners of the country.
- According to Section 73 of the Companies Act, 1956, every company intending to offer shares or debentures to the public for subscription by issue of a prospectus has to first make an application to one or more recognized stock exchanges for their listing.
- Stock brokers are members of recognized stock exchanges who buy, sell or otherwise deal in securities. A bull is a buyer in the stock market. A bear is a seller of securities. The Badla system involved trading for clearing with a facility of carrying forward the transaction from one settlement period to another. The SEBI introduced modified forward trading system on October 6, 1995 effective from October 9, 1995.
- Capital Issues (Contract) Act (CICA), 1947. According to the CICA Act, companies had to obtain prior approval for any new issue, and for pricing or public and right issue. Now this Act has been repealed by the Capital Issues (Control) Repeal Act, 1992.
- A major development in the Indian stock market took place in 1988 when Securities and Exchange Board of India (SEBI) was established. The SEBI is now authorized to govern all the matters related to issue of capital. The SCRA also authorizes the SEBI to conduct inquiries into the working of the stock exchange; they are required to submit their annual reports to the SEBI and it requires the approval of the SEBI for amending their rules and bye laws. The SEBI can direct them to amend their bye-laws and rules including reconstitution of their governing boards/councils; and it is empowered to license security dealers operating outside their jurisdiction.
- Fiscal policy many be defined as Government policy concerned with raising revenue and pattern of expenditure in order to achieve the objectives of the economic policy.
- Monetary policy may be defined as the *economic policy of the Government relating to currency and credit money*. According to *Radcliffe committee* "economic policy of the Government in the monetary field" is its monetary policy.

- By the term industrial policy we mean the **formulation of principles and rules for the industrialization of the country**.
- Industrial Licensing system means the control *government over the location, expansion and setting up of a private industrial undertaking, with a view to channelising it, in accordance with plan priorities and targets.*
- The sick industrial companies (special provision) act 1985, defined sickness in terms of "Cash losses for/two consecutive financial years and accumulated loses equaling or exceeding the net worth of the company at the end of the second financial years."
- Some symptoms of sickness are: (1) Deteriorating financial ratio, (2) Delay in the audit of annual account, (3) Persisting shortage of cash flow, (4) Continuous tumble in the price of the shares, (5) Delay in the payment of statutory dues, (6) Widespread use of creative accounting, (7) Frequent request for loans, (8) Morale degradation of the employees. (9) Desperation amongst the top and middle managerial level.
- Some of the common causes leading to failing health of small units: (1) Problems in production, (2) Lack of orders, (3) Lack of raw materials, (4) Cash crunch, (5) Increased cost of raw materials, (6) Increased overhead costs.
- Prevention of Sickness: (1) Term leading institutions, (2) Commercial banks, (3) Entrepreneurship, (4) Governments.

4.43. Review Exercises

1. What is competition in the market?
2. Why do we need competition of in the market?
3. What is an anti-competitive agreement?
4. What constitutes competition law and policy?
5. What constitutes abuse of dominance?
6. What constitutes competition law and policy?
7. What is meant by unfair competition?
8. Who can make a reference on a competitive policy?
9. Explain Foreign Exchange Management Act.
10. Differentiate between FERA and FEMA.
11. Discuss the role of the RBI in enforcing FEMA.
12. What do you mean by Capital Account Transaction?
13. Describe the scope of FEMA and discuss the difference between FERA and FEMA.
14. Discuss the role of the RBI in enforcing FEMA.
15. What is Capital Account Transaction? Discuss the role of FEMA in regulating Capital and Current Account Transactions.
16. Discuss how the Directorate of Enforcement puts FEMA into effect.
17. What do you mean by Over the Counter Exchange of India?
18. Define the term Derivatives.

Notes

19. What do you understand by the term Swaps?
20. List the functions of the SEBI.
21. Describe briefly the development of stock exchange in India.
22. Discuss the function and powers of the SEBI.
23. Critically evaluate the guidelines and reform the SEBI introduced.
24. Write short notes on:
    (*i*) Badla System
    (*ii*) Carry Forward Transactions
    (*iii*) Derivatives
    (*iv*) Insider Trading
    (*v*) Underwriting
25. What is meant by fiscal policy?
26. State the meaning of monetary policy.
27. What do you mean by Industrial Policy?
28. What is industrial licensing?
29. What do you mean by the term "Exports"?
30. What does FDI stand for?
31. State any four items exported by India.
32. What is the goal of a sick time policy?
33. What should you look for in a sick time policy?
34. What is a typical amount of sick days for an employer?
35. What are the important symptoms of sickness?
36. What is the criteria to identify sickness?
37. Write reasons and consequences of sickness.
38. What are the prevention of sickness?

Unit–5

Emerging Trend

Notes

Structure

RECENT TRENDS IN BUSINESS ENVIRONMENT

5.0. Learning Objectives
5.1. Introduction
5.2. Meaning of E-business
5.3. Meaning of Electronic Commerce (E-commerce)
5.4. Definitions of E-commerce
5.5. E-business v/s E-commerce
5.6. Opportunities of E-business
5.7. Scope of E-business
5.8. Uses of E-business
5.9. Benefits of E-business
5.10. Limitations of E-business
5.11. Resources Required for Successful E-business Implementation
5.12. Online Transactions
5.13. Security and Safety of Business Transaction
5.14. Methods to Ensure Security and Safety of E-business Transactions

OUTSOURCING

5.15. Introduction
5.16. Meaning/Concept of Outsourcing Services
5.17. Nature/Features of Outsourcing
5.18. Scope of Outsourcing
5.19. Advantages/Need of Outsourcing
5.20. Limitation of Outsourcing
5.21. Types of Outsourcing Services

CORPORATE SOCIAL RESPONSIBILITY

5.22. The Role of Corporate Social Responsibility
5.23. Some Factors that Determine the Role of Social Responsibility
5.24. Impact of CSR
5.25. CSR Trends in India
5.26. CSR Amendments Under the Companies (Amendment) Act, 2019
5.27. The Methodology of CSR
5.28. Benefits of Employees from Corporate Social Responsibility

SOCIAL RESPONSIBILITY OF BUSINESS IN INDIA

CORPORATE SOCIAL RESPONSIBILITY OF BUSINESS

5.29. Introduction

Notes

5.30. Definition
5.31. Meaning
5.32. Need For Corporate Social Responsibility

ROLE OF CORPORATE SOCIAL RESPONSIBILITY

5.33. Barriers to Social Responsibility
5.34. Potential Business Benefits of CSR
5.35. Concept of Social Responsibility
5.36. Case for Social Responsibility
5.37. Social Responsibility Towards Different Interest Groups
5.38. Kinds of Social Responsibility
5.39. Environment Protection and Business
5.40. Major Environmental Pollution Control Activities
5.41. Business Ethics
5.42. Summary
5.43. Review Exercises

5.0. Learning Objectives

After going through this unit, you will be able to:

- Know methods to ensure security and safety of E-business transaction.
- Explain scope of outsourcing.
- Explain CSR Amendments under the companies (Amendment) Act. 2019.
- State need for corporate social Responsibility.
- Explain major environmental pollution control activities.

RECENT TRENDS IN BUSINESS ENVIRONMENT

5.1. Introduction

Commerce, as we know is the sale, exchange or transfer of goods and services with profit motive. Modern business is not independent. It cannot work in isolation. The basic motive of every business activity is the profit. It is the profit which encourages and motivates the entreprenuer to undertake business activities.

For earning more profit the available resources of the business should be fully exploited. Efforts should be made to produce maximum at minimum cost and sacrifice.

Modern business system is being affected by new Internet-based business system known as E-business systems. This is due to market saturation, competition, segmentation, change in technology and changes in the external environment that create deeper global repercussions.

The internet is opening up more opportunities for business—for retailers, wholesalers, manufacturers and service sector. The technology is also being used internally within organizations to streamline and transform sales, marketing, production, finance, administration and personnel departments. As a result the flow of information is being enhanced to replace paper-based tasks and systems with more efficient methods. The benefits of electronic commerce are not just available to large corporations and government departments. Small and medium business houses are also discovering new cost-effective opportunities in using Internet-related technology to help their business operations locally and internationally.

Notes

5.2. Meaning of E-business

The term business indicates wide range of activities involving various functions like production, finance, marketing, research and development, etc. when these business functions are aligned to technology through computerized networking it takes the form of E-business. Hence, *E-business may be defined as the conduct of industry, trade and commerce using the computer networks.*

5.3. Meaning of Electronic Commerce (E-commerce)

Internet commerce or E-commerce (electronic commerce) is on-line electronic technology connected via the Internet to assist and enhance a variety of business processes, functions and systems. Using the Internet for commerce means far more than simply processing payment transactions.

The 'Gartner Group' focuses on inter enterprise systems in their research and strategies and *defines electronic commerce as electronic communication among enterprises, including customers, suppliers, business partners, government organizations and financial institutions.*

5.4. Definitions of E-commerce

"It is an electronic communication among enterprises, including customers, suppliers, business partners, government organizations and financial institutions".

—Dr. Janardhan

Thus, we can understand *"E-commerce is a general concept covering any business transaction executed electronically between parties such as companies (business-to-business), companies and consumers (business-to-consumers), consumers and consumers, business and the public sector and between consumers and the public sector".*

Therefore, we can say that, *electronic commerce is a generic name for a range of technologies that allows the transfer of business information using electronic means. This would, therefore, include technologies such as Electronic Data Interchange, Universal Product Certification or Article Numbering, Geographical Positioning System, etc. which allows the exchange of information reducing human intervention to a minimum.*

5.5. E-business v/s E-commerce

Though both the terms are used intra changeabily but there is precise distinction between the two. E-business is broader than E-commerce as business is wider than commerce.

E-commerce covers the interaction of the firm with its customers and suppliers over the internet, whereas E-business includes E-commerce and other electronically conducted business functions, such as production, product development, accounting, finance, inventory management and human resource management.

Notes

5.6. Opportunities of E-business

The opportunities of electronic business are not just available to large corporations and government departments but many small to medium businesses are also discovering new cost-effective opportunities by using Internet related technology to help their business operations locally or internationally.

Moreover, E-business offers great opportunities for developing countries. It can help them to enter the prosperous global marketplace and hence serve to reduce the gap between rich and poor countries.

In today's business world corporate applications of electronic business have focussed on **computer-to-computer interactions**. The output of one computer program becomes the input to another. The system that is used to generate a printed purchase order and mail it to the supplier now sends the purchase order as an electronic data interchange message to a computer at the supplier's facility. The order is automatically, electronically received and input by the supplier's own order processing software and does not have to be keyed in. Payments are similarly automatic with electronic funds transfers (EFT) replacing cheques. It makes no sense to spend money on paper and people when two computers can structure the transaction for a few amount.

5.7. Scope of E-business

As we know that business is a broader term, which includes industry, trade and commerce. As such it includes all types of business transactions, such as production, finance, marketing, personnel, administration and also managerial activities like, planning, organizing and controlling. It is carried on through computer network. Electronic business can also be viewed in term of parties concerned. In this context a firm's electronic transactions and network can be categorized as follows:

1. **B2B** — a firm's transactions with other businesses
2. **B2C** — a firm's interaction with its customers
3. **Intra B commerce** — a firm's internal processes.

It can be explained through the following diagram

1. **B2B Commerce.** In these transactions both the parties involved are business firm. In other words, it is business to business and known as B2B. The transaction requires a business to interact with a number of other businesses which may be suppliers or vendors of input or out put. It may also be a distribution channel. Let us take an example of an automobile dealer. He requires a large number of components which may be supplied by a large number of suppliers. The firm uses a network of computer for placing order monitoring production and delivery of components. All the necessary functions regarding business can be processed through the

Notes

network of computer. It enables effective and fast execution. It moves information and documents very fast. It also helps in money transfer.

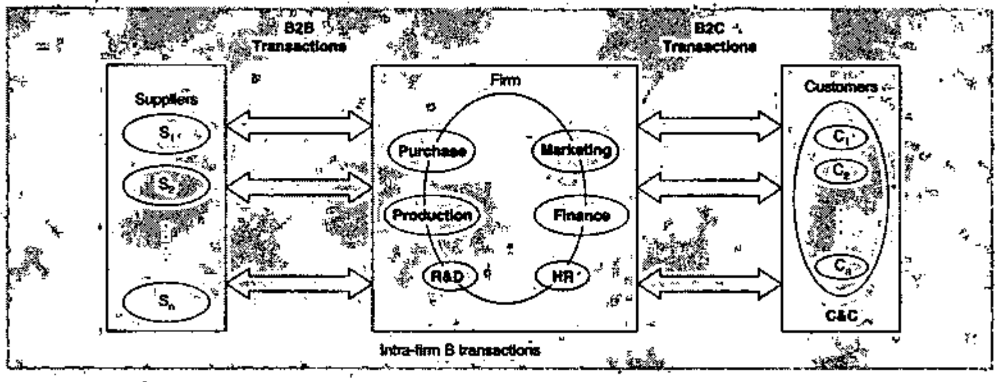


Fig. 5.1. Firm as a link between Network of Suppliers and Customers.

Initially E-commerce was restricted to B2B transactions using electronic data interchange (EDI) technology to send and receive commercial documents like, invoices and purchase order.

2. **B2C Commerce.** B2C indicates business to customers. In this case business tries to reach customers through online shopping. Apart from online shopping B2C also takes care of registering customers complaints, delivery of products, online payments, etc. This shows the concept of B2C expands to wide range of marketing activities to enable ease of transaction, delivery, payment through internet networks. Companies can increase customer touch points through regular feedbacks, support online surveys, etc. This also helps companies to identify their weak areas to minimize customer pain.

It should be noted that B2C is not one way traffic, it can be other way round also. i.e., C2B, which allows customers to do shopping at will. Customers can lodge complaints at company set up call centres.

ATM Speeds UP Withdrawal of Money

E-commerce greatly facilitates and speeds up the entire B2C process. Withdrawal of one's own money from the banks was, for example, a tedious process in the past. One had to go through a series of procedural formalities before he or she was able to get the payment. After the introduction of ATMs, all that is fast becoming a history now. The first thing that occurs is that the customer is able to withdraw his money, and the rest of the back-end processes takes place later.

3. **Intra B-commerce.** Parties involved in the electronic transaction are from within a business firm. This is why, it is called intra B-commerce. It is mainly used to interact between management and its various functions and also with persons within a firm.

Intra B-commerce has made manufacturing flexible. Interaction between production and marketing department is also possible. It has contributed

Notes

to the effective management and supervision. It also helps in efficient inventory and cash management, greater utilization of plant and machinery, effective human resource management and handling of customer orders. It is responsible for faster decisions and speedier work flows.

Intra B-commerce is also responsible for the emergence of B2E commerce (Business to Employees Commerce). Employees can contact each other and share the information. Employees can also use VPN (Virtual Private Network) technology. In this case employees need not attend to the office and they can work from wherever they are and also at their own will, speed, time and convenience. Meetings can also be held online via, tele or video conferencing.

4. **C2C Commerce.** Customer-to-customer interaction made available through computerized network is an additional benefit of E-commerce tools. Customers can interact with each other on account of various reasons:

   (i) *As perspective buyer and sellers.* Customers can search for perspective buyers or sellers for any specific second hand used item. eBay is a fine example towards this. eBay allows its sellers and buyers to rate each other. A seller getting higher grade will have a better chance of selling his products than a seller getting a lower grade.

   (ii) *Payment Intermediary.* Paypal is a good example of this kind. On this kind paypal holds the payment until the goods have been received by the buyer.

   (iii) *Consumer Forums or Pressure Groups.* C2C commerce also helps in mobilizing support for or against a product or service. This helps the companies to take corrective actions to avoid adverse publicity through these pressure groups.

Facilitating C2C Commerce – The Way eBay does it

Trust and Safety

eBay's *Trust and Safety* team is responsible for keeping the marketplace a safe, well-lit place for people around the world to trade with one other.

Actively working to enable members to trade safely, eBay fosters trust between members through the development and enforcement of rules and policies, the creation of reputation-building programs, and the prevention of fraud.

eBay also works behind-the-scenes to prevent fraud and, in the event a problem occurs, eBay proactively works with law enforcement and government agencies throughout the world to enforce its policies. Rooted in the values of the marketplace, eBay's policies are aimed at offering a level playing field, encouraging open, honest, and accountable transactions, and creating economic opportunities for everyone.

To help the community trade safely and build trust with one another, eBay offers the following tools, programs, and resources:

Notes

eBay Feedback

eBay feedback is each user's reputation on eBay. Through positive, negative, and neutral ratings and comments, each eBay member has a Feedback score. All sellers display this score in the Seller Information box of the item listing page. eBay Feedback fosters trust between people by acting as both an incentive to do the right thing and as a mark of distinction for those who conduct transactions with respect, honesty, and fairness.

Buyer Protection

Users who see the PayPal Buyer Protection shield buy with confidence knowing that their purchase is covered up to $500 at no additional cost. For users who are not using PayPal as their payment system, there is also the eBay Standard Purchase Protection Program which provides up to $200 coverage (minus a $25 processing cost) for either items that are not received or items that are not as described in the listing.

Spoof (Fraudulent) Web Site Protection

The eBay Toolbar with Account Guard enables eBay members to protect their accounts by indicating when they are on an eBay or PayPal site and warning them when they are on a potentially fraudulent, or spoof, website. In addition, eBay helps users prevent and combat fraud by conducting online tutorials on spoof e-mail and educating members on how to report issues to spoof@ebay.com.

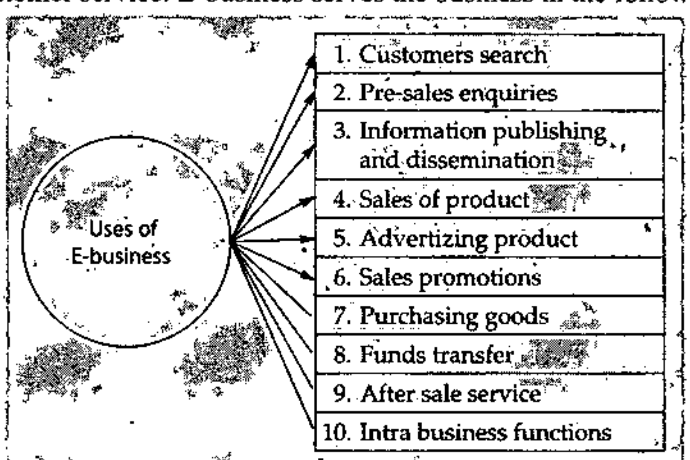
eBay Security Center

The eBay Security Center provides guidance on buying safely, selling safely, and paying safely, as well as valuable third-party, government and law-enforcement resources. The Security Center is a valuable resource for all users, from first-time buyers who want information on safeguarding online transactions to high-volume sellers who want to protect their copyrights.

Source: www.ebay.com

5.8. Uses of E-business

Using the Internet for business means far more than simply processing payment transactions. Internet/electronic-commerce systems are being established for automating and enhancing many aspects of communications also such as publishing, marketing, sales and customer service. E-business serves the business in the following areas:



Notes

1. **Customers search:** E-commerce helps in finding customers for the product or service through sending them informative emails for the product or service. These e-mails help customers to understand the product and decide as to whether it should be purchased or not.
2. **Pre-sales enquiries:** Customers can contact company's sales executives through the company website to have information about the product price, specification, etc.
3. **Information publishing and dissemination:** Company website helps in providing latest information about the price, discount, quality of product, etc. Website can be accessed anywhere in the world.
4. **Sales of product:** Online sales of product can be made on the website. Customer's can choose the product from the catalogue of photographs and order online. Payment can be made through cheque, draft or credit card.
5. **Advertizing product:** E-commerce helps advertizing of the product through e-mails, website, telemarketing, etc. Customer's can be given latest information on the e-mail or website.
6. **Sales promotions:** Sales can be increased by online trading on the internet also helps to provide better customer service by receiving their complaints on the e-mail.
7. **Purchasing goods:** Suppliers can be found on Internet for a particular product or service. Internet search engines like Google, Yahoo help in locating supplier's from all parts of the world.
8. **Funds transfer:** Internet banking has the facility of funds transfer from one bank to another. The customers are provided secured identity to carryout such transactions on the Internet.
9. **After sale service:** Customers can be provided efficient after sales service through contacting them via e-mail address. Customers can put the complaints through companies e-mails.
10. **Intra business function:** E-business helps in bringing efficiency in the business functions like production, finance, marketing, etc. E-business makes it possible to speed up the communication amongst various departments to establish efficient, effective and robust internal operations.

Table 5.1. Distinction between Traditional and E-business

	Bases of Distinction	Traditional Business	E-business
1.	*Ease of formation*	Difficult	Simple
2.	*Physical presence*	Required	Not required
3.	*Locational requirements*	Proximity to the source of raw materials or the market for the products	None
4.	*Cost of setting up*	High	Low as no requirement of physical facilities
5.	*Operating cost*	High due to fixed changes associated with investment in procurement and storage, production, marketing and distribution facilities	Low as a result of reliance on network of relationships rather than ownership of resources
6.	*Nature of contact with the suppliers and the customers*	Indirect through intermediaries	Direct

Notes

7.	*Nature of internal communication*	Hierarchical-from top level management to middle level management to lower level management to operatives	Non-hierarchical, allowing direct vertical, horizontal and diagonal communication
8.	*Response time for meeting customers'/ internal requirements*	Long	Instantaneous
9.	*Shape of the organizational structure*	Vertical/tall, due to hierarchy of chain of command	Horizontal/flat due to directness of command and communication.
10.	*Business processes and length of the cycle*	Sequential precedence succession relationship, i.e., purchase-production/operation-marketingsales. The, business process cycle is, therefore, longer	Simultaneous concurrence different processes. Business process cycle is, therefore, shorter
11.	*Opportunity for interpersonal touch*	Much more	Less
12.	*Opportunity for physical pre-sampling of the products*	Much more	Less, however, for digitable products such an opportunity is tremendous. You can pre-sample music, books, journals, software, videos, etc.
13.	*Ease of going global*	Less	Much, as cyber space is truly without boundaries

Some E-business Applications

(A) e-Procurement: It involves Internet-based sales transactions between business firms, including both, "reverse auctions" that facilitate online trade between a single business purchaser and many sellers and digital market places that facilitate online trading between multiple buyers and sellers.

(B) e-Bidding/e-Auction: Most shopping sites have 'Quote your price' whereby you can bid for the goods and services (such as airline tickets!). It also includes e-tendering, whereby one may submit tender quotations online.

(C) e-Communication/e-Promotion: Right from e-mail, it includes publication of online catalogues, displaying images of goods, advertisement through banners, popups, opinion poll and customer surveys, etc. Meetings and conferences may be held by the means of video conferencing.

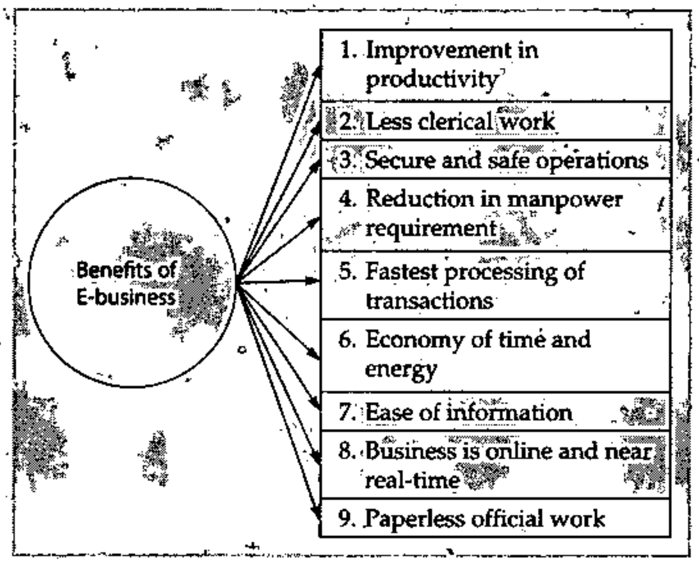
(D) e-Delivery: It includes electronic delivery of computer software, photographs, videos, books (e-books) and journals (e-journals) and other multimedia content to the user's computer. It also includes rendering of legal, accounting, medical, and other consulting services electronically. In fact, Internet provides the firms with the opportunities for outsourcing of a host of Information Technology Enabled Services (ITES) that we will be discussing under business process outsourcing. Now, you can even print the airlines and railway tickets at home!

(E) e-Trading: It involves securities trading, that is online buying and selling of shares and other financial instruments. For example, sharekhan.com is India's largest online trading firm.

5.9. Benefits of E-business

Notes

Electronic business (E-business) is the base for running a firm well in the era of just-in-time everything just-in-time production, distribution, service and communication. Electronic business has changed the very nature of the supply process, eliminating invoices, allowing suppliers to monitor and replenish inventory without purchase orders and scheduling payment for good when they are used rather than when they are delivered. These changes have introduced terms to the vocabulary of electronic commerce that may mystify the uninitiated business manager such as, evaluated receipts settlements, vendor managed inventory and paid on production. Therefore, electronic commerce is beneficial for people from the following ways:



1. **Improvement in productivity:** Through E-business system productivity of a production unit is increased, because E-business facilitates in searching new fields of factors of production like land, labour, capital, etc. and new technologies from different corners of the world. Improved factors of production and technology add to the productivity, the producing capacity of workers and consequently production also increases.

2. **Less clerical work:** E-business is operated with the help of computer system, so there is less clerical work. In case of traditional commercial operations lots of papers, files, documents and employees are required for finalisation of deal. In case of E-commerce, the same work is performed with lesser number of employees and paper work.

3. **Secure and safe operations:** Modern business is being carried on with the help of internet, net working and E-business facility. These equipment and technologies make the process of business operations very fast and secure. All transactions are performed with the help of computers without the involvement of middlemen. E-commerce operations are performed at home. The use of password maintains privacy, safety and security of transactions.

4. **Reduction in manpower requirements:** E-business has reduced manpower requirements of business, because it provides the fastest

finalization of transactions. The computer has unimaginable speed accuracy and memory. Thus E-commerce requires far lesser manpower.

5. **Fastest processing of transactions:** E-business makes the fastest processing of business transactions. It saves travelling, mail and other types of time consuming operations.
6. **Economy of time and energy:** As E-business makes the fastest processing of business operations, so it is economical as regards time and energy.
7. **Ease of information:** Internet stores varieties of information regarding business. Every businessman can access internet through E-business route and get requisite information about the product, its constituents, specialities, price, terms of sale and payment, etc. with ease and speed. As such manufacturers, producers, customers and service providers are benefited by the information.
8. **Business is online and near real-time:** E-business is the business through computer and internet facilities. It is online facility for transactions. Its speed makes real-time transactions.
9. **Paperless official work:** Use of internet has significantly reduced dependence on paper work and attendant red tape. Procurements, supplies, etc., are done online with minimum paper work. Recently introduced information technology Act 2000 allows use of electronic signatures to encourage paperless work.

Notes

5.10. Limitations of E-business

1. **Low personal touch:** E-business is not suitable for businesses requiring high level of personal touch like medical and legal services. The use of computerized network does away with the need of meeting with sellers or service providers.
2. **Need for technology, capability and competence of parties to E-business:** For successful implementation of E-business, it is imperative that parties to the transactions are familiar with the world of computers. In the absence of knowledge gap for usage of computerized technology, E-business impact cannot be meaningful.
3. **Long time to complete transaction:** The time taken between placing an order and delivering it may be high which may play on the patience of consumers.
4. **Increased risk due to anonymity and non-traceability of the parties:** It is difficult to identify actual party to the transactions as transactions take place in the name of cyber personalities. One may not know even the location from where parties are transacting. Thus, the risk of impersonation and leakage of confidential information exists.

Notes

Information Technology Act 2000 paves way for Paperless Society

Below are given some of the provisions of Information Technology Act 2000, that have made it possible to have paperless dealings in the business world as well as in the government domain.

Legal recognition of electronic records (Section 4): Where any law provides that information or any other matter shall be in writing or in the typewritten or printed form, then, notwithstanding anything contained in such law, such requirement shall be deemed to have been satisfied, if such information or matter is rendered or made available in an electronic form; and accessible so as to be usable for a subsequent reference.

Legal recognition of digital signatures (Section 5): Where any law provides that information or any other matter shall be authenticated by affixing the signature or any document shall be signed or bear the signature of any person, hence notwithstanding anything contained in such law, such requirement shall be deemed to have been satisfied, if such information or matter is authenticated by means of digital signature affixed in such a manner as may be prescribed by the Central Government.

Use of electronic records and digital signatures in Government and its agencies (Section 6-1): Where any law provides for the filing of any form, application or any other document with any office, authority, body or agency owned or controlled by the appropriate Government in a particular manner; the issue or grant of any licence, permit, sanction or approval by whatever name called in a particular manner; the receipt or payment of money in a particular manner, then, notwithstanding anything contained in any other law for the time being in force, such requirement shall be deemed to have been satisfied if such filing, issue, grant, receipt or payment, as the case may be, is effected by means of such electronic form as may be prescribed by the appropriate Government.

Retention of electronic records (Section 7-1): Where any law provides that documents, records or information shall be retained for any specific period, then, that requirement shall be deemed to have been satisfied if such documents, records or information are retained in the electronic form.

Source: Information Technology Act, 2000

Digital Divide: The Facts

First the figures. The statistics on the basic building block of connectivity–that is the phone lines–are stark.

According to the latest *UN Human Development Report*, industrialized countries, with only 15% of the world's population, are home to 88% of all Internet users. Less than 1% of people in South Asia are online even though it is home to one-fifth of the world's population.

The situation is even worse in Africa. With 739 million people, there are only 14 million phone lines. That's fewer than in Manhattan or Tokyo. Eighty per cent of those lines are in only six countries. There are only 1 million Internet users on the entire continent compared with 10.5 million in the UK.

Even if telecommunication systems were in place, most of the world's poor would still be excluded from the information revolution because of illiteracy and a lack of basic computer skills. In Benin, for example, more than 60% of the population is illiterate. The other 40% are similarly out of luck. Four-fifths of the Websites are in English, a language understood by only one in 10 people on the planet.

Source: http://www.news.bbc.co.uk/.../special_report/1999/10/

Notes

5.11. Resources Required for Successful E-business Implementation

As we discussed above that E-business is an Internet or electronic commerce runs with the help of computer and Internet systems which provide best services of sales and purchase online and near real time. So that, we required to have the following resources for the successful E-business implementation:

1. **Competent workforce:** E-business needs well trained competent workforce, capable of working with computer network and Internet with ease. They should also be capable of handling sales inquiries, processing orders and delivery of goods. There should be perfect coordination between order of goods, its payment and delivery.
2. **Computer system:** As we discussed above that electronic commerce is the business with Internet/electronic. For that, we should have computer systems by which we can take/place order with ease. A computer should be sufficient for business transactions.
3. **Internet connection:** For pursuing electronic commerce (E-business) there should be Internet connection from any Internet Service Provider (ISP). These service providers are Mantra online, VSNL (Videsh Sanchar Nigam Limited), etc.
4. **Comprehensive website:** The business must possess well-designed website. It should have detailed information preferably hyperlinked with supporting pictures, graph and technical data. .
5. **Effective Tele-communication system:** The system requires proper reach of telephone lines, optic fibre cable and Internet technology capable of handling the traffic on the Internet. In order to popularize E-business, efforts must be made as a matter of national policy to reduce the cost of hardware as well as cost of using Internet.

5.12. Online Transactions

Operationally, one may visualize three stages involved in online transactions. First, the pre-purchase/sale stage including advertizing and information seeking;

Notes

secondly, the purchase/sale stage comprized of steps such as price negotiation, closing of purchase/sales deal and payment; and thirdly, the delivery stage (see Fig. 5.2). It may be observed from figure that, excepting the stage relating to delivery, all other stages involve flow of information. The information is exchanged in the traditional business mode too, but at severe time and cost constraints. In face to face interaction in traditional business mode, for example, one needs to travel to be able to talk to other party, requiring travel efforts, greater time and costs. Exchange of information through telephone is also cumbersome. It requires simultaneous presence of both the parties for verbal exchange of information. Information can be transmitted by post too, but this again is quite time consuming and costly process. Internet came in as the fourth channel which is free from most of the problems referred to above. In the case of information intensive products and services such as softwares and music, even delivery can take place online.

What is described hereunder is the process of online trading from a customer's standpoint. We will be discussing the seller's perspective in the paragraphs on resource–requirements for E-business.

1. **Registration:** Before online shopping, one has to register with the online vendor by filling-up a registration form. Registration means that you have an 'account' with the online vendor. Among various details that need to be filled in is a 'password' as the sections relating to your 'account' and 'shopping cart' are password protected. Otherwise, any one can login using your name and shop in your name. This can put you in trouble.
2. **Placing an order:** You can pick and drop the items in the shopping cart. Shopping cart is an online record of what you have picked up while browsing the online store. Just as in a physical store, you can put in and take items out of your cart, likewise, you can do so even while shopping online. After being sure of what you want to buy, you can 'check-out' and choose your payment options.
3. **Payment mechanism:** It is clear from Exhibit 5.1 that payment for the purchases through online shopping may be done in a number of ways:
   (*i*) ***Cash-on delivery (COD):*** As it is clear from the name, payment for the goods ordered online may be made in cash at the time of physical delivery of goods.
   (*ii*) ***Cheque:*** Alternatively, the online vendor may arrange for the pick up of the cheque from the customer's end. Upon realization, the delivery of goods may be made.
   (*iii*) ***Net-banking transfer:*** Modern banks provide to their customers the facility of electronic transfer of funds over the net. In this case, therefore, the buyer may transfer the amount for the agreed price of the transaction to the amount of the online vendor who may, then, proceed to arrange for the delivery of goods.

Table 5.2. Telecenters Project in India

Name	*Number of kiosks*	*Agency*	*Activity*
Bhoomi	30	Government of Karnataka	Land title
E-chaupal	3500	ITC	Procurement
Warna	72	National Informatics Centre (NIC)	Cane Factory
Akshaya	617	Kerala	E-literacy
Tara Haat information	18	Development Alternatives	E-training, market
Drishtee	90	Digital Partners	Mandi prices, land titles
Milk Coops	5000	National Dairy Development Board	Milk Collection
CIC (NE)	30	NIC	Internet Access

Source: IIM, Workshop on Scaling up ICT for Poverty Alleviation in India, Ahmedabad, February 26–27, 2004.

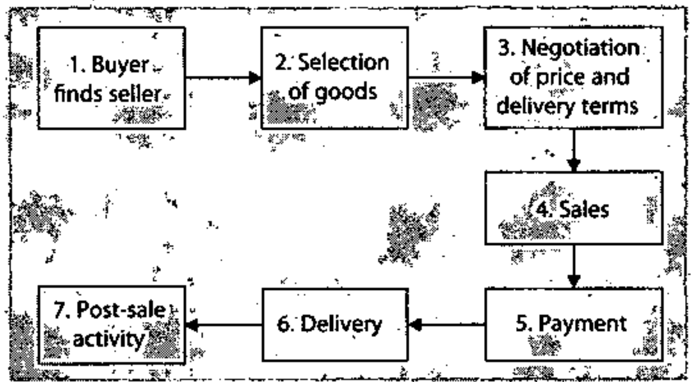


Fig. 5.2. Process of Buying/Selling.

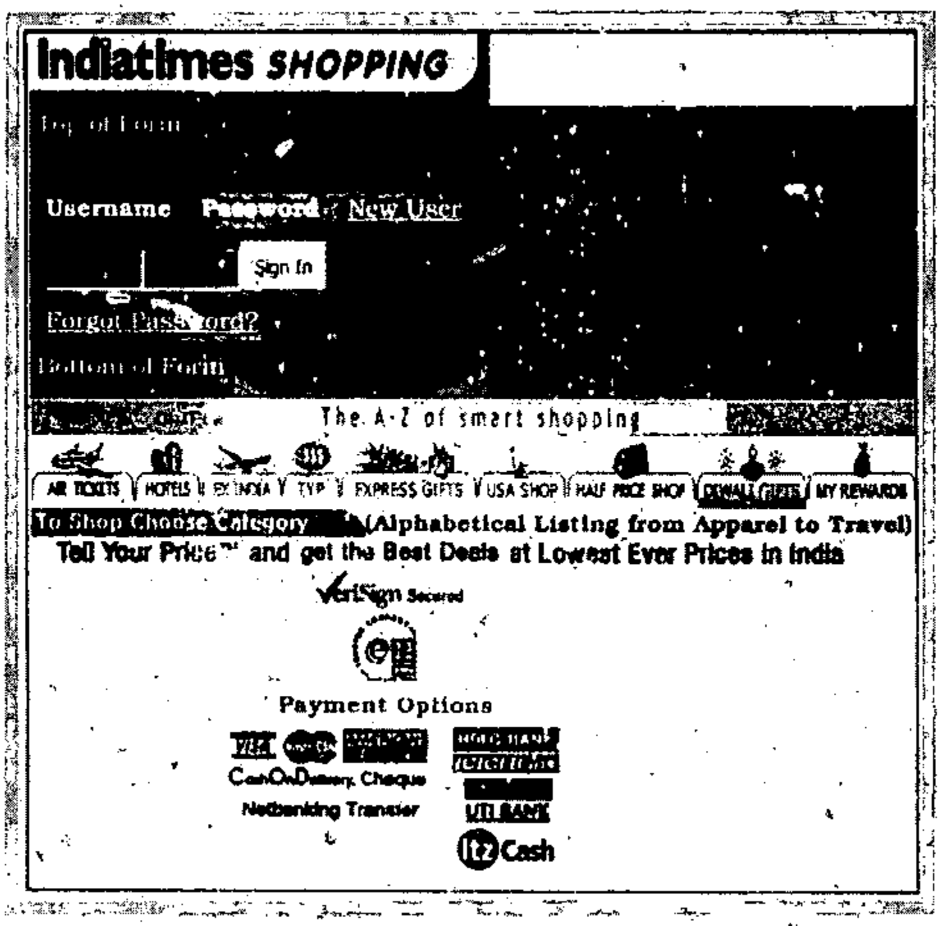
4. **Credit and debit cards:** Popularly referred to as 'plastic money' these cards are the most widely used medium for online transaction. In fact, about 95% of online consumer transactions are executed with a credit card. Credit card allows its holder to make purchase on credit. The amount due from the card holder to the online seller is assumed by the card issuing bank, who later transfers the amount involved in the transactions to the credit of the seller. Buyer's account is debited, who often enjoys the freedom to deposit the amount in instalments and at his convenience. Debit card allows its holder to make purchases through it to the extent of the amount lying in the corresponding account. The moment any transaction is made, the amount due as payment is deducted electronically from the card.

   To accept credit card as an online payment type, the seller first needs a secure means of collecting credit card information from its customer. Payments through credit cards can be processed either manually, or through an online authorization system; such as SSC certificate (see box on, History of E-commerce).

Notes

5. **Digital card:** A form of electronic currency that exists only in cyberspace. This type of currency has no real physical properties, but offers the ability to use real currency in an electronic format. First, we need to pay to bank (vide cheque, draft, etc.) an amount equivalent to digital cash that we want to get issued in our favour. Then the bank dealing in E-cash will send you a special software (You can download on your hard disk) that will allow you to draw digital cash from your account with the bank. You may then use the digital funds to make purchases over the web. This type of payment system hopes to resolve the security problems related to the use of credit card numbers on the Internet.

Exhibit 5.1. An adaptation of 'Shopping' Page of indiatimes.com–India's Biggest Shopping Mall



Source: Adapted from indiatimes.com

Notes: 1. Typing of URL address in the address window of the browser leads one to the addressee's home page, in this case indiatimes.com. From there one can move on to 'Shopping'. Home page means the introductory or menu page of a website. A home page usually contains the site's name and a directory of its contents. All other pages on a server are usually accessible by following links from the home page.

2. URL, i.e., 'Uniform Resource Locator' refers to a worldwide web address that specifies a specific site, page, graphic, or document on the internet. It is www.indiatimes.com in the present case.

5.13. Security and Safety of Business Transaction

Though the use of E-commerce is supposed to be safe and secured, because of its digital or electronic cash systems, shopping from the privacy, your own home with your personal computer but its safety and security suffers from the following:

Notes

1. **Broad-Hijacking:** Powerful new brands can be created overnight by the use of powerful medium of internet. These new brands can be more popular quickly. Branches of existing popular companies can be rejected causing severe loss to the companies. It is as advised that companies must establish their brands in cyberspace as early as possible.
2. **Hacking:** Unauthorized entry into a website is termed as Hacking. Hackers often destroy the date and the information which causes huge losses, because the flow of business transactions carried out through the website is interrupted. In order to tackle this problem special cyber crime cells have been set up by the government. These cells take necessary action against the criminals.
3. **Viruses:** Virus means vital information under seige. Viruses create numerous problems in carrying task through computers. Deadly viruses may destroy all the information stored by the computer. The viruses can enter a system through e-mail or disk drive floppies or certain websites. Things in the computer stand still until the virus is cleaned. This causes huge loss of revenue and employees time.

5.14. Methods to Ensure Security and Safety of E-business Transactions

E-business transactions are comfortable to make but they involve certain risk which needs to be tackled through better security and safety of these transactions on the Internet.

1. **Encryption and decryption:** Under this method the message is encrypted through a specific coding system and then it is decrypted by the receiver of the message. This method helps in safeguarding the message through proper coding and decoding methodology.
2. **Digital signature:** The documents are digitally signed to ensure that it is coming with proper authority. The purpose of digital signature is to identify the sender whenever the message is received. Some of the countries have legalized the method of digital signature.
3. **Cyber crime cells:** These cells may be set up by the government to monitor the cyber crimes like Hacking, impersonation, etc. It helps in taking necessary action against the cyber criminals.
4. **Password security:** A rule can be set up to regularly change the login password on a monthly basis to avoid fraud. It can also be set up in a way that the password is not easy to catch. Some special characters need to be entered in the password like @, #, etc.

5.15. Introduction

Notes

In today's era, businesses are more focussed on cost control measures as it is not easy to increase prices if market share has to be retained or improved. Competitive advantage can be realized only when businesses become more efficient in their operations and reduce cost of inefficiences. In such a case specialization plays an important role. During 1990s, a new trend could be seen where in the repetitive nature of work was being transferred to outside agencies, so that efficiency in day to day operations can be achieved and businesses remain focussed on their core competencies. This phenomenon of hiring outside firms for services is known as outsourcing of services.

5.16. Meaning/Concept of Outsourcing Services

Outsourcing is the latest trend in today's business world, going outside your own organization to obtain specialized services of various kinds. It is called Business Process Outsourcing (BPO), which essentially means getting task accomplished through an outside agency. Every outsourcing relationship involves processes and procedures. These are often standardized but it is important that there is some flexibility to ensure that they can evolve with the relationship.

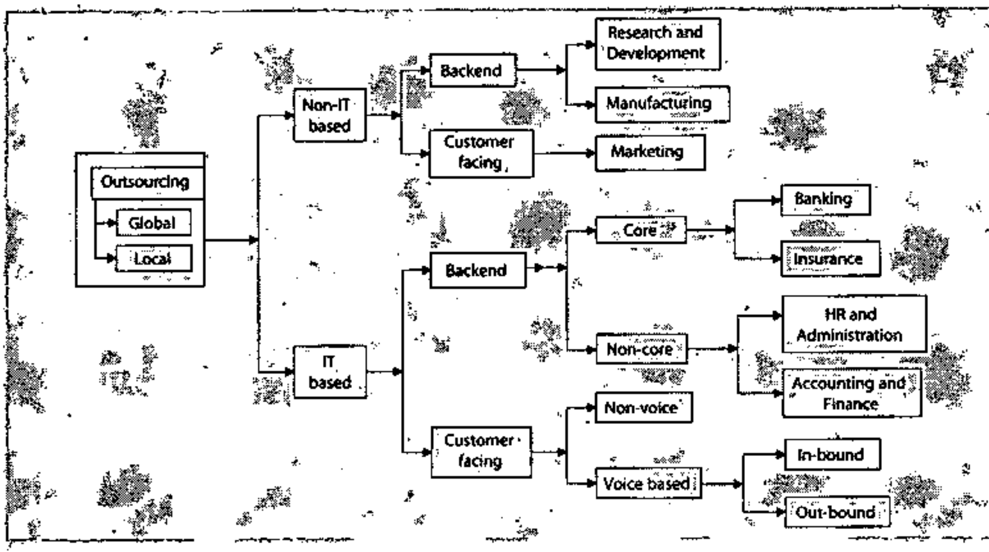


Fig. 5.3. Anatomy of Outsourcing.

In traditional business environment business is depended on *'trial and error'* method. People performed their whole work themselves. Every one produced goods and services for their self-consumption. The production was carried out on a small scale, but in today's modern business environment goods and services are produced for exchange or market (i.e., fulfillment of other people wants). Therefore, there is need of specialisation (i.e., process based division) by which individuals can get good quality products and in large scale. Thus, outsourcing is helping to the business men, producers, manufacturers and consumers for better standard of living and it gives the right to have specialized product for particular work, such as services of courier, accounting, advertizing, fitting, furnishing, etc.

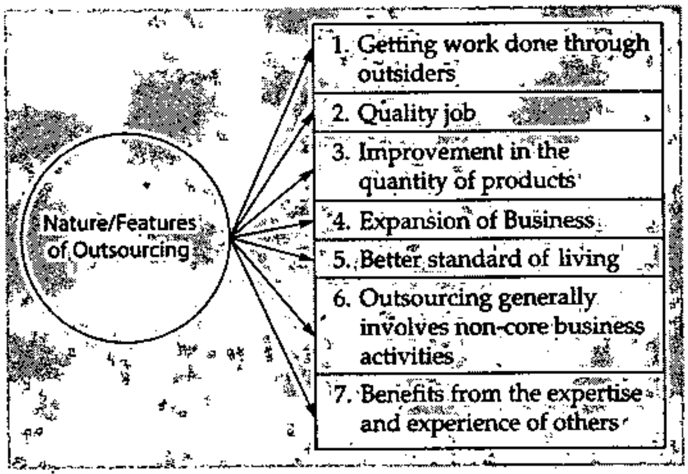
A peculiar feature of BPO is that companies hire out on contract those tasks, which are performed on regular bases. It is a departure from earlier practice when companies hired outside agencies for those tasks, which were occasionally performed, such as consultancy and training of employees.

The basic spirit behind the BPO theory is that the business should identify and concentrate on its core competencies.

Notes

5.17. Nature/Features of Outsourcing

As we discussed above that outsourcing is the process to obtain specialized services from their specialist people. So the nature of outsourcing can be as follows:



1. **Getting work done through outsiders.** Outsourcing is the process of getting work done from specialist individuals outside the business. For example, an enterprise hires other agency for repairing his machines rather than repair it by its staff.
2. **Quality job.** Through using outsourcing sources people get good quality. For example, a specialised faculty of a particular subject can teach the same subject better than general faculty.
3. **Improvement in the quantity of products.** Outsourcing helps to improve the quantity of products with their quality. A specialised courier agency or a transport company serves business better than its own drivers of trucks/vehicles.
4. **Expansion of business.** Outsourcing process links growing business to a range of state of the art services and resources using outsourcing resources any business can expand as per its need. For example, using an advertising agency as a source of outsourcing a company/business can inform the features and quality of the product to people in easy way.
5. **Better standard of living.** Outsourcing provided best services to the people. In modern world every individual wants to avail of maximum opportunity of his precious time. That's why, he wants to use specialist for his different needs, which provides better standard of living.
6. **Outsourcing generally involves non-core business activities.** Activities, which are not central or basic to a particular enterprise are known as non-core activities. The Organisation does not like to involve itself

with non-core activities; because it cannot perform it efficiently and economically. Such non-core activities are outsourced. For example, a school may tie up some computer institutes to impart computer education to its students.

Notes

7. **Benefits from the expertise and experience of others.** Service provider enterprises are efficient competent and experienced enough to perform the job economically. As such services are availed of at comparatively lesser cost than what the enterprise will have incurred if services should have been done by the enterprise itself.

5.18. Scope of Outsourcing

There are four key segments of outsourcing such as contract manufacturing, contract research, contract sales, and informatics.

Outsourcing is popular with IT services or Business Process Outsourcing (BPO). Infact, even more popular term is 'call centres' providing customer-oriented voice based services. About 70% of the BPO industry's revenue comes from call centres, 20% from high volume, low- value data work and the remaining 10% from higher-value information work. 'Customer care' accounts for the bulk of the call centre activities with 24 hrs × 7 days handling of inbound (customers queries and grievances) and out-bound (customer surveys, payment follow-up and telemarketing) traffic. Figure 5.4 outlines various types of outsourcing activities.

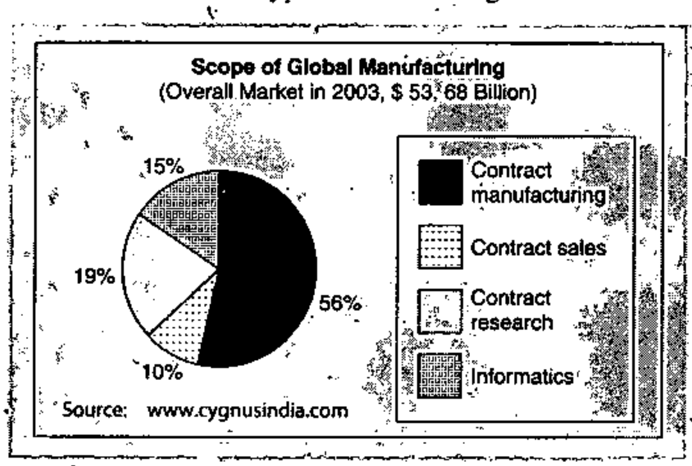


Fig. 5.4. Scope of Outsourcing.

5.19. Advantages/Need of Outsourcing

In today's business world, outsourcing has become a buzz word to achieve specialization in services due to lack of time and unlimited requirements. Everyone wants to have more satisfaction in less time, so that he can uses specialist which create requirement of outsourcing of resources. The principal needs of outsourcing are classified as follows:

Notes

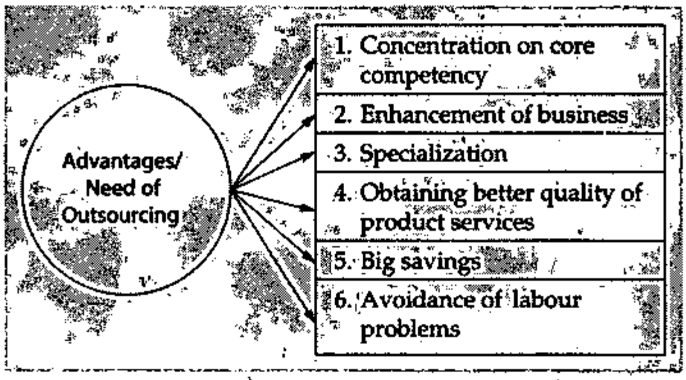


Fig. 5.5.

1. **Concentration on Core Competency:** BPO provides an opportunity to the business to concentrate on core areas of its strength and competence. It will enable better performance.
2. **Enhancement of Business:** As we know that every businessman wants more and more profit and personal development. For that, he should try to become distinguished from others by providing standard and specialized quality of product. In order to achieve this objective he should use outsourcing resources to make his dreams true.
3. **Specialization:** Through outsourcing specialization in business operations can be achieved. This reduces cost and improves the quality of business operations.
4. **Obtaining Better Quality of Product Services:** Standard of living of people is improving day by day. Every individual wants to use standard quality of goods and services. For this purpose they use outsourcing resources, so that standard quality of goods services could be produced.
5. **Big Savings:** Outsourcing agencies are competent enough in their services and perform the job at lesser cost. It results in savings.
6. **Avoidance of Labour Problems:** Outsourcing requires lesser number of persons to be employed by the business, so labour problems are also reduced.

5.20. Limitation of Outsourcing

Outsourcing has certain limitations or disadvantages which are discussed as below:

1. **Low efficiency:** Outsourcing may result into lower efficiency levels if vendor or service provider does not provide efficient service level. Also, the cost of managing outsourced contracts become high if quality standards are not maintained resulting in greater disputes and management time cost in managing outsourcing contracts.
2. **Disintegration of business:** One of the limitations of outsourcing is that it results in business disintegration due to business activities outsourced

Notes

to different vendors or service providers. The division of the business activities to the outsourcing partner results in higher management cost and lower efficiency.

3. **Risk:** One of the limitations of outsourcing is that it involves risk of losing data or information related to the business which may be crucial part of the business activities. This risk is more for the banking, financial institutions and other service industries which maintain crucial information of their customers like their annual income, phone numbers, addressess, etc.
4. **Legal risk:** There may be situations where the company incurs some liabilites due to mishandling or inefficiency of the outsourced partner. For example, if some tasks are not done correctly by the outsourcing company due to which the customers suffer some losses, in this case, the company may have to pay some damages to the customers due to inefficiency of the outsourced vendor.
5. **Loss of control:** In the case of outsourcing, the company loses the overall control of business because most of the activities are done by the outside service providers. This situation becomes risky as the total control of the business is leaked and it is divided amongst different service providers.

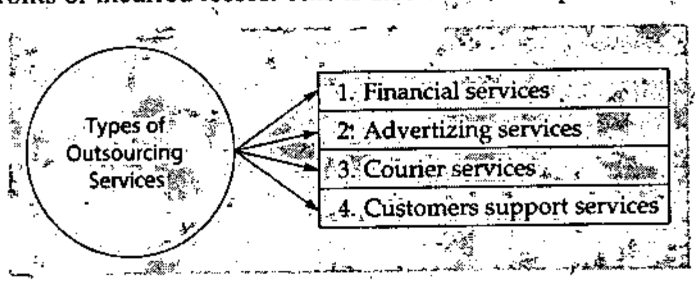
5.21. Types of Outsourcing Services

In modern business world, an entrepreneur uses various sources of outsourcing. Principal sources of outsourcing used by businessmen are as follows:

1. **Financial Services:** In the background of globalization of the world economy as a whole and loosening of international trade barriers, finance work is becoming one of the most critical function for the businessmen. The scope of finance has widened. Now, it is considered not in narrow sense of arranging funds but in a very broad perspective, where cost of capital and useful deployment of surplus funds is of essence. Therefore, there is need to handover this work to its specialist (i.e., accountants).

   In modern business world mostly business units make their financial processing with the help of accountants who perform financial accounting services.

   Financial accounting is the original form of accounting, which deals with the maintenance of books of accounts with a view to ascertain the profitability and financial status of the business. The main purpose of this outsourcing service is to ascertain the financial position of business at the end of a certain period. That is to find out, whether the firm has earned profits or incurred losses. This is also known as operational accounting.



Areas of Financial Outsourcing Services

(i) Raising Finance by way of issuing shares and debentures.

(ii) Raising loans from financial institutions where number of legal and procedural formalities are required.

(iii) Purchasing and selling business.

(iv) Merger of business enterprises.

(v) Utilization of surplus idle cash.

(vi) Maintaining Accounts by specialist firms.

In order to avail of top quality of accounting services from specialists outside the business at economical cost outsourcing is adopted. There are enterprises which offer finance/accounting services (expense processing, reconciliation, balance sheet analysis) transaction processing for cheques, claims processing, payroll, administration services, etc. GE capital offers financial services internationally through its centres based in India, Hungry, China and Mexico.

Notes

2. **Advertizing Services:** Advertizing is an activity which establishes non-personal contact of business with the consumers regarding its product, idea and services. Due to competition and profit motive being objectives, business enterprises need advertizing. In order to multiply sales through advertizing media it is necessary that services of advertizing specialists be availed of outside the business at lower costs. Outside advertizing firms design advertizement copy-select the media, arrange time and speed, make films for display in various media like televizion, cinema, radios, internet, etc. If the business will perform advertizing services itself, it will enjoy lot of technicians and purchase equipments. Advertizement copies are used for quite long time, so outsourcing is very useful.

3. **Courier Services:** Courier services work as private specialist *mini-post office*. They accept envelops, parcels and packets, etc. from the sender, charge commission and issue receipts signifying that the accepted article will be taken to the addressee. They work as outsourcing resource for business enterprises.

   It will not be an easy task for the business enterprises to carry their goods, letters and parcels themselves from one place to other place. It needs that outsourcing services be availed of. There are many courier services which are prepared to carry out goods and documents at comparatively cheaper rates with safety. *Availing of specialist services at the back of the front office is termed as outsourcing*. It enables better quality of service at cheaper cost.

4. **Customer Support Services:** The modern business tries to make strong and stable link with the customers. It tries to arrange supporting services to the customers through outsourcing. Customer support services means *After Sales Services*. For example, certain products, machines and equipments require regular maintenance services after sale. The business instead of building its own service department can entrust the work to highly specialized, competent and trustworthy firm, ensuring customers satisfaction. Standard Chartered Bank is a banking institution but it offers

credit card facilities, car loan facilities, customers insurance facilities, home loans facilities, etc. at economical rates through outsourcing services.

Notes

The *main idea and objective behind outsourcing services is to restrict the business house to concentrate to its core task through front office and leave the rest of work with the back office, which is eager to offer its specialist services at economical rates.* These days it is a common practice with the big business enterprises to get their financing, advertizing, courier and customer support services through other enterprises outside the business as outside resource.

Concerns Over Outsourcing

Outsourcing, inspite of its various advantages has the following limitations. It has the following concerns:

1. **Lack of confidentiality:** Information is supplied and shared with the other partner, who is required to preserve the information. There is always a fear that the information may leak and reach the competitor. It is also risk that the outsourcing partner, if competent enough can start the same business as a competitor.
2. **Sweat shopping:** The jobs, outsourced concerns doing skills rather than development of thinking skill. We outsource only those activities which can be done outside the business units at comparatively cheaper cost. It may be thought as the exploitation of the employees of service provider country.
3. **Ethical concern:** The service provider country in order to cut the costs of the service uses child labour and women in the factories. It is unethical to exploit the child and women for this purpose. It also encourages wage discrimination between males and females.
4. **Resentment in the home countries:** Outsourcing of jobs outside the country reduces employment opportunities in the home country and increases unemployment. This is why, there is resentment among the people of home country.

KPO (Knowledge Process Outsourcing)

KPO means getting high end value added work done by resources whose co-location with the ultimate consumer is not essential. It simply means allocating highlevel tasks to an outside group or organization located in a different geography. Companies may resort to KPO when they are shortage of skilled labour and professionals and have an opportunity to hire skilled workers at relatively low cost. Various types of jobs such as analytical and knowledgeable research, technical analysis, analysis of services, etc. comes under the scope of KPO. According to National Association of Software and Services Companies (NASSCOM), KPO is expected to reach 17 billion $ out of which 12 billion $ will be outsourced to India. India is in a position to capture around 70% of KPO. Apart from India, countries like Russia, China, Ireland and Israil will also be joining the KPO Industry.

Smart Card and ATM

A smart card is a plastic card about the size of a credit card having a microchip embedded in it with the purpose for loading data. It is very useful in making electronic cash payments. One can dial a connection on a mobile phone and be charged on per-call basis with the help of a smart card. A person can even establish his identity when logging on to an internet access provider or for the purpose of online banking. It helps in making cash payments electronically. Hence, it is also known as an instrument of cybercash. A person can provide his personal data to someone with the help of a smart card. Smart card is technically also called chip card or integrated circuit card.

Notes

A smart card can be programmed with multiple banking credentials, medical entitlement, club memberships, driving license, etc. For instance, if you lose your wallet you have to replace all the necessary documents one by one, but on losing a smart card you need to replace only one. Hence, people have better security and convenience with using smart cards. They serve as credit or ATM cards, fuel cards, sim card, authorisation card for making payments. They are informally known as electronic wallets.

ATM (Automated Teller Machine) on the other hand is a device that enables a person to perform financial transactions independently. Using an ATM card, customers can access their bank accounts in order to withdraw cash and check their balances.

It can also be used for shopping purposes. The customer should remember a four digit pin and can avoid carrying his wallet. Your bank account cannot be accessed without this four digit pin. Hence it is a form of safe plastic money. When a person insert an ATM card in an ATM machine, the machine asks for a four digit pin. After providing the machine with the pin the customer can withdraw money for use. Hence, ATM is a cash dispenser machine. From 1st December 2013 it was made compulsory to provide the four digit pin to shop through an ATM card. Since you can shop through ATM card hence they serve the purpose of a debit card when you shop through an ATM card the amount is directly deducted from your account and you don't need to carry cash.

CORPORATE SOCIAL RESPONSIBILITY

5.22. The Role of Corporate Social Responsibility

To build a business that can sustain market changes, competition and other challenges, an organization needs to strengthen its CSR initiatives. CSR is as much a part of management as is hiring, employee development or goal-setting. The role of CSR is to strengthen an organization's public image. Both the organization and its CSR efforts work in tandem to lead the business to success.

5.23. Some Factors that Determine the Role of Social Responsibility

1. **Employee Performance and Productivity:** If you find an organizational culture that's invested in social responsibility, volunteering and philanthropy, you'll likely stay on board.

Notes

Employee attrition is said to be lower, with higher job satisfaction, in organizations that fulfill their CSR. It's important to create a culture that's rich, meaningful and vibrant. Working for a cause you believe in will give you the satisfaction you need apart from the work you're doing.

2. **Social Awareness:** Building social awareness means to shed light on human-centric issues. Organizations must participate in initiatives that aim to spread awareness around social causes like threatening diseases, environmental challenges and declining rates of employment. Working together as a community is what helps us build a better world.
3. **Fulfilling Responsibility Toward Stakeholders:** There are several stakeholders involved in the process of building and sustaining a business. CSR helps an organization fulfill its responsibility toward each of these parties—employees, clients or customers. Participating in social initiatives that help organizations build a more sustainable world can benefit everyone involved.

5.24. Impact of CSR

The movement toward CSR has had an impact in several domains. For example, many companies have taken steps to improve the environmental sustainability of their operations, through measures such as installing renewable energy sources or purchasing carbon offsets. In managing supply chains, efforts have also been taken to eliminate reliance on unethical labour practices, such as child labour and slavery.

Categories of CSR

Although corporate social responsibility is a very broad concept that is understood and implemented differently by each firm, the underlying idea of CSR is to operate in an economically, socially, and environmentally sustainable manner.

Generally, corporate social responsibility initiatives are categorized as follows:

1. **Environmental responsibility:** Environmental responsibility initiatives aim to reduce pollution and greenhouse gas emissions and the sustainable use of natural resources.
2. **Human rights responsibility:** Human rights responsibility initiatives involve providing fair labour practices (e.g., equal pay for equal work) and fair trade practices, and disavowing child labour.
3. **Philanthropic responsibility:** Philanthropic responsibility can include things such as funding educational programmes, supporting health initiatives, donating to causes, and supporting community beautification projects.
4. **Economic responsibility:** Economic responsibility initiatives involve improving the firm's business operation while participating in sustainable

practices – for example, using a new manufacturing process to minimize wastage.

5.25. CSR Trends in India

Notes

· Since the applicability of mandatory CSR provision in 2014, CSR spending by corporate India has increased significantly. In 2018, companies spent 47 % higher as compared to the amount in 2014-15, contributing US$1 billion to CSR initiatives, according to a survey.

India is the first country in the world to make corporate social responsibility (CSR) mandatory, following an amendment to the Companies Act, 2013 in April 2014. Businesses can invest their profits in areas such as education, poverty, gender equality, and hunger as part of any CSR compliance.

Amid the COVID-19 (coronavirus) outbreak, the Ministry of Corporate Affairs has notified that companies' expenditure to fight the pandemic will be considered valid under CSR activities. Funds may be spent on various activities related to COVID-19 such as promotion of healthcare including preventive healthcare and sanitation, and disaster management. Follow the latest India COVID-19 updates here.

5.26. CSR Amendments Under the Companies (Amendment) Act, 2019

Until now, if a company was unable to fully spend its CSR funds in a given year, it could carry the amount forward and spend it in the next fiscal, in addition to the money allotted for that year.

The CSR amendments introduced under the Act now require companies to deposit the unspent CSR funds into a fund prescribed under **Schedule VII of the Act** within the end of the fiscal year. This amount must be utilized within three years from the date of transfer, failing which the fund must be deposited in to one of the specified funds.

The new law prescribes for a monetary penalty as well as imprisonment in case of non-compliance. The penalty ranges from INR 50,000 (US$700) to INR 2.5 million (US$35,000) whereas the defaulting officer of the company may be liable to imprisonment for up to three years, or a fine up to INR 500,000 (US $7,023), or both.

The government, however, is reviewing these rules after the industry objected to the strict provisions, especially with respect to the jail terms for CSR violations, and is yet to operationalize them.

5.27. The Methodology of CSR

CSR is the procedure for assessing an organization's impact on society and evaluating their responsibilities. It begins with an assessment of the following aspects of each business:

- Customers;
- Suppliers;
- Environment;

Notes

- Communities; and,
- Employees.

The most effective CSR plans ensure that while organizations comply with legislation, their investments also respect the growth and development of marginalized communities and the environment. CSR should also be sustainable – involving activities that an organization can uphold without negatively affecting their business goals.

Organizations in India have been quite sensible in taking up CSR initiatives and integrating them into their business processes.

It has become progressively projected in the Indian corporate setting because organizations have recognized that besides growing their businesses, it is also important to shape responsible and supportable relationships with the community at large.

Companies now have specific departments and teams that develop specific policies, strategies, and goals for their CSR programmes and set separate budgets to support them.

Most of the time, these programmes are based on well-defined social beliefs or are carefully aligned with the companies' business domain.

5.28. Benefits of Employees from Corporate Social Responsibility

1. **Positive Workplace Environment:** When corporations exhibit philanthronic behaviour, they are more likely to provide employees with a positive workplace.
2. **Increase in Creativity:** Employees feel stronger connection with their company when they know their employers are following CSR and they feel more inclined to be productive and creative.
3. **Encourage Personal Growth:** Company can easily promote volunteerism to their employees. When employees contribute their time and money to worthy causes, they develop professionally and personally.
4. **Promotes Individual Philanthropically:** An employee is more likely to take advantage of those programmes and become more individually philanthropically minded.

Examples of CSR in India

Tata Group

The Tata Group conglomerate in India carries out various CSR projects, most of which are community improvement and poverty alleviation programmes. Through self-help groups, it has engaged in women empowerment activities, income generation, rural community development, and other social welfare programmes. In the field of education, the Tata Group provides scholarships and endowments for numerous institutions.

The group also engages in healthcare projects, such as the facilitation of child education, immunization, and creation of awareness of AIDS. Other areas include economic empowerment through agriculture programmes, environment protection, providing sports scholarships, and infrastructure development, such as hospitals, research centers, educational institutions, sports academy, and cultural centers.

Notes

Ultratech Cement

Ultratech Cement, India's biggest cement company is involved in social work across 407 villages in the country aiming to create sustainability and self-reliance. Its CSR activities focus on healthcare and family welfare programmes, education, infrastructure, environment, social welfare, and sustainable livelihood.

The company has organized medical camps, immunization programmes, sanitization programmes, school enrollment, plantation drives, water conservation programmes, industrial training, and organic farming programmes.

Mahindra & Mahindra

Indian automobile manufacturer Mahindra & Mahindra (M&M) established the K. C. Mahindra Education Trust in 1954, followed by Mahindra Foundation in 1969 with the purpose of promoting education. The company primarily focuses on education programmes to assist economically and socially disadvantaged communities.

Its CSR programmes invest in scholarships and grants, livelihood training, healthcare for remote areas, water conservation, and disaster relief programmes. M&M runs programmes such as Nanhi Kali focusing on education for girls, Mahindra Pride Schools for industrial training, and Lifeline Express for healthcare services in remote areas.

ITC Group

ITC Group, a conglomerate with business interests across hotels, FMCG, agriculture, IT, and packaging sectors has been focusing on creating sustainable livelihood and environment protection programmes. The company has been able to generate sustainable livelihood opportunities for six million people through its CSR activities.

Their e-Choupal program, which aims to connect rural farmers through the internet for procuring agriculture products, covers 40,000 villages and over four million farmers. It's social and farm forestry programme assists farmers in converting wasteland to pulpwood plantations. Social empowerment programmes through micro-enterprises or loans have created sustainable livelihoods for over 40,000 rural women.

SOCIAL RESPONSIBILITY OF BUSINESS IN INDIA

Corporate Social Responsibility of Business

Notes

5.29. Introduction

The primitive economy accepted business as one of the occupation. Since the industrial revolution, business was recognised and accepted as profit making venture. The profit motive theory of the business made its owners greedy, selfish and exploiter. In an attempt to multiply profit by any means, there emerged cut-throat competition among firms and exploitation of workers. The unsatisfactory and tense situation divided the human factor in the business as workers and owners. Since then, the class conflict between them started and the process still continues. In such circumstances business lost its contact with the customers and the society.

Modern business has now been forced by the labour revolution, consumer's consciousness, public opinion and the welfare concept of the government to be conscious about its social obligations.

5.30. Definition

Corporate social responsibility (CSR) refers to the **self-imposed responsibility of companies to society** in areas such as the environment, the economy, employee well-being, and competition ethics. Many companies use internal CSR regulation as a form of moral compass to positively influence the ethical development of their business.

Corporate social responsibility (CSR for short) is the internationally regarded concept for **responsible corporate behaviour** – although it is not clearly defined. In a nutshell, CSR refers to the **moral and ethical obligations** of a company with regards to their **employees, the environment, their competitors, the economy** and a number of other areas of life that its business affects. Corporate social responsibility (CSR) refers to strategies that companies put into action as part of corporate governance that are designed to ensure the company's operations are ethical and beneficial for society.

Everything you need to know about corporate social responsibility. Corporate Social Responsibility (CSR) is an evolving concept that is yet to command a standard definition. With an understanding that businesses have a key role of job and wealth creation in a society, CSR is generally understood to be the way an organization achieves a balance between economic, environmental, and social imperatives while addressing the expectations of shareholders and stakeholders.

According to Bowen (1953), CSR is defined as 'the obligation of businessmen to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of objectives and values of society'.

5.31. Meaning

CSR denotes the way the companies integrate the general, social, environmental and economic concerns of the society into their own values, strategies and operations in a transparent and accountable manner and thereby contribute to the creation of wealth and improvement in the standard of living of the society at large.

5.32. Need For Corporate Social Responsibility

Notes

1. **Better Public Image:** Each firm must enhance its public image to secure more customers, better employees and higher profit Acceptance of social responsibility goals lead to improve public image.
2. **Conversion of Resistances into Resources:** If the innovative ability of business is turned to social problems, many resistances can be transformed into resources and the functional capacity of resources can be increased many times.
3. **Long Term Business Interest:** A better society would produce a better environment in which the business may gain long term maximization of profit. A firm which is sensitive to community needs would in its own self interest like to have a better community to conduct its business. To achieve this it would implement social programmes for social welfare.
4. **Avoiding Government Intervention:** Regulation and control are costly to business both in terms of money and energy and restrict its flexibility of decision making. Failure of businessmen to assume social responsibilities invites government to intervene and regulate or control their activities. The prudent course for business is to understand the limit of its power and how to use that power carefully and responsibly thereby avoiding government intervention.

ROLE OF CORPORATE SOCIAL RESPONSIBILITY

5.33. Barriers to Social Responsibility

To fulfill the task of social responsibility the following problems may be faced at organisational level which hinder the process of implementation of achieving the goal of social responsibility.

(*i*) **The Manager:** The managers are extra cautious while planning and implementing the programmes related to social responsibility as the people at high level may not approve the plans of managers if they feel that the plans are non-profitable to organisation.

It is the manager who is ultimately responsible for social action programmes of any organisation. The manager can also plan or implement the social action programme.

(*ii*) **The Organisation:** The main objective of any organisation is profit maximisation as shareholders want dividend ultimately or they may like the profits to be re-ploughed back for expansion of business and people working in the organisation expect higher salaries.

So social action projects need to be evaluated very carefully in terms of cost and benefit. So social responsibility may be overlooked while achieving the main objective of the organisation *i.e.* profit maximisation.

(*iii*) **The Industry:** There are many competitors in the same industry for an organisation. When a particular organisation does some socially beneficial activity for the benefit of society only then it may not be appreciated by other competitors in the industry which makes individual organisation very difficult to survive in the industry alone.

Notes

(*iv*) **The Division:** There are number of divisions in the organisation which are competing among themselves and also strive towards main goal of organisation *i.e.* profit. Any social responsibility decision and project which affects or reduces the profit might threaten the existence of that particular division.

This is one of the main reasons that most of the divisions feel hesitant in initiating and implements social responsibility programmes unless and until there are clear guidelines and instructions from the people at top level.

5.34. Potential Business Benefits of CSR

The scale and nature of the benefits of CSR for an organization can vary depending on the nature of enterprise, and are difficult to quantify, though there is large body of literature exhorting business to adopt measures beyond financial ones. The business case for CSR within a company will likely rest on one or more of these arguments. A CSR programmed can be an aid to recruitment and retention, particularly within the competitive graduate student market. Potential recruits often ask about a firm's CSR policy during an interview, and having a comprehensive policy can give an advantage. Risk management managing risk is a central part of many corporate strategies. Reputation as take decades to build up can be ruined in hours through incident such as corruption scandals or environmental accident. These can also draw unwanted attention from regulators, courts, governments and media. Building a genuine culture of doing the right thing within a corporation can offset these risk. Brand differentiation in crowded market places, company's striving for a unique selling proposition. That can separate them from the competition in the minds of consumers. CSR can play role in building customer loyalty based on distinctive ethical values. License to operate corporation are keen to avoid interference in there business through taxation. By taking substantive voluntary steps, they can pursuit governments that they are taking issues such as health and safety, diversity, or the environment seriously as good corporate citizen with respect to labour standards and impacts on the environment.

5.35. Concept of Social Responsibility

Business, these days is recognised and accepted as a *social and economic organ of the society*. The business is formed within the society, with the resources of the society and to satisfy the needs of the society. In this way, *it is a social venture*. All the factors of production *i.e.*, men, machine, material, capital and equipment are supplied by the society to the business, as such business owes its existence to the society.

The society originates, sustains and manages the affairs of the business, as such it is obligatory on the business to conduct its affairs in the interest of society. In this way, the conduction of business with the social interest in view is fulfilling social obligation.

In other words, social responsibility is the obligation of the business towards different groups of society, in addition to its profit earning. In short, *humanisation of business to a reasonable limit is social responsibility.*

Notes

Social Responsibility and Legal Responsibility

Social responsibility is a broader term than legal responsibility of the business. Legal responsibility may be fulfilled by mere compliance with the law. Social responsibility is more than that. It is a firm's recognition of social obligation even though not covered by law, alongwith the obligation laid down by law. In other words, social responsibility involves an element of voluntary action on the part of business people for the benefit of society.

Important Views Regarding Social Responsibility

"Social responsibility is the personal obligation of every one, as he acts for his owner's interests, to assure that right and legitimate interests of all others are not impinged." **—Koontz & O'Donnel**

"Social responsibility of the business is to follow those lines of action, which are desirable in terms of the objectives and values of our society." **—H.R. Bowen**

"Business, in order to play its proper role and contribute to the totality of human progress must come to be informed with a new spirit and new outlook. It must be made conscious of social responsibilities." **—Jai Prakash Narain**

"In the real sense, the assumption of social responsibilities implies recognition and understanding of the aspiration of society and determination to contribute to its achievement." **—George A. Steiner**

The study and analysis of the views expressed by the management experts reveals that the business has obligation towards the following:

(*i*) Responsibility towards ownself.

(*ii*) Responsibility towards owners/investors.

(*iii*) Responsibility towards workers/employees.

(*iv*) Responsibility towards consumers/customers.

(*v*) Responsibility towards Government.

(*vi*) Responsibility towards community and public in general.

The business has its social obligation to pay reasonable return to the entrepreneur, to pay interest at competitive rates to investors, to pay reasonable remuneration to employees, supply goods to customers at reasonable rates and to conduct the affairs of the business in accordance with the social commitment and values.

In short, business responsibility means the reasonable evaluation of all resources and their effective direction to meet business social commitments.

Notes

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Whereas it is the responsibility of every form of business enterprise- be it sole proprietorship, partnership, joint hindu family, cooperative, or a joint stock company to act in a socially desirable manner. The concept of CSR, used particularly with reference to a company, has recently gained popularity. Corporate social responsibility can be defined as **achieving commercial success in ways that honour ethical values and respect people, communities and the natural environment.** CSR means addressing the legal, ethical, commercial and other expectations that society has from corporate who should take decisions and actions that fairly balance the claims of all the stakeholders (i.e., the people who have interest in the life of a corporate including shareholders, creditors, consumers, competitors, workers, government and the society at large).

CSR is viewed as a comprehensive set of policies, practices and programmes that are integrated into business operations, supply claims and decision making process throughout the company wherever the company does business and includes responsibility for current and past actions as well as future impact.

5.36. Case for Social Responsibility

The concept of social responsibility implies that it is an ethical issue. It is the question of morality. It is concerned with, what is morally wrong or right in relation to firm's responsibility?

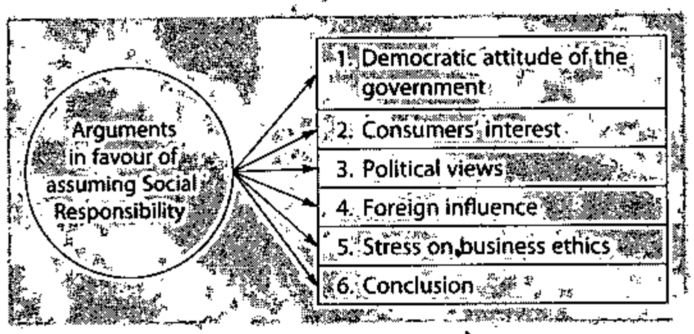
Social responsibility has an element of voluntary action on the part of business persons, who are free to honour or dishonour social responsibility.

The business is free to decide the extent to which it will serve the society. In fact, all businessmen are not equally responsible towards the society.

It is still disputable and debatable whether the business should honour social commitments. Both the views have their own arguments. Let us now discuss the argument in favour of honouring social responsibility and also argument against the social responsibility.

Arguments in Favour of Assuming Social Responsibility

We shall be discussing here the arguments in favour of and against assuming social responsibility.



1. ***Democratic attitude of the government:*** After the social and political revolutions, the country has adopted *planned developmental democratic*

Notes

economy, so it is necessary to integrate, direct and control the activities of the business towards social welfare. In these circumstances, the business has to assume its responsibility towards the society. The business community has to carry out the provisions of minimum Wages Act, Factory Act and other directions of the Government.

2. ***Consumers' interest:*** In earlier days consumer was dependent on the mercy of the business houses but the modern consumers have realised that business should not rule over them but render services to them. Consumers have also organised their powerful associations. In these circumstances the business must fulfill its social commitments, if it wants to survive.
3. ***Political views:*** There must be democratisation of business also. If there is democracy in the country, workers, being the vital and active factor of the business must be accorded participation in the management. They must be consulted in taking important decisions.

   Different political parties have emerged due to the democratic set up of the country. These parties make certain promises in their election manifesto. In case, they win the election, they control, guide and direct business activities in the social interest as per the promise.
4. ***Foreign influence:*** In general the business community of Japan, England, Germany etc. bear good national and moral character. They do not indulge in the bad practices of adulteration, immitation and duplication. It is, therefore, necessary that our business houses should take lessons from these foreign institutions and carry out their business in the best interest of the various classes of the society.
5. ***Stress on business ethics:*** There has been a revolution in the views and thinking of individuals. Previously the business was supposed to belong to its owners but these days it is supposed to be the assets of the entire community and nation. There are seminars, meetings and discussions and everywhere it is stressed that the business should assume its social responsibility.
6. ***Conclusion:*** Ethics is the obligation of entire society, not a particular group. Therefore, the business community being very resourceful should especially assume social obligations. In this connection **Ghanshyam Dass Birla** rightly says, "If the business does not keep the interest of the masses at top, nobody will take care of it."

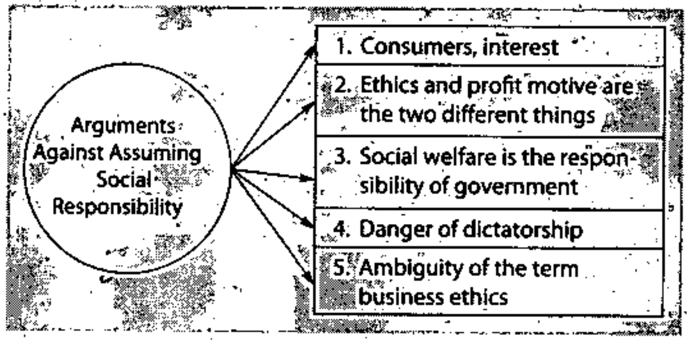
Socially Responsible Indian Companies

Companies	*Nature of Work*
TISCO SAIL ESCORTS ITC BHEL ASIAN PAINTS	These companies have been contributing for community development projects, health care, chemical, welfare, sports promotion, agricultural development drinking water projects tribal development and rural industrialisation.

Arguments Against Assuming Social Responsibility

Notes

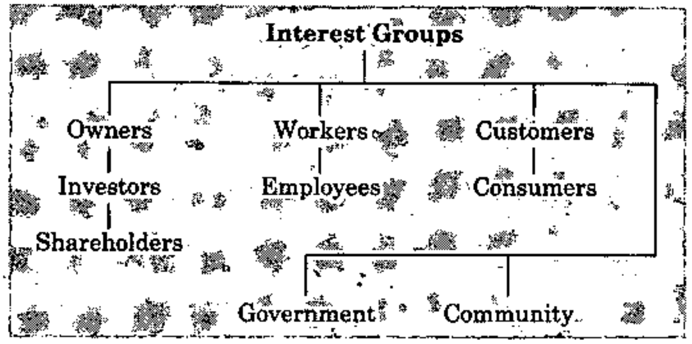
It is disputed by certain viewers as to why the business should assume morality. They claim that the only aim of the business enterprise is 'profit motive' not the services of the masses. Business is not religious institution but it is profit earning unit. The supporters of this view advance the following arguments:



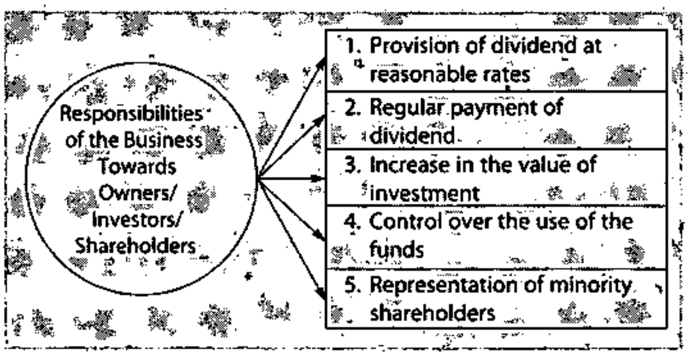
1. ***Consumers, interest:*** The business owes its obligation to its customers to supply standard quality of goods at reasonable price. If the business assumes its social responsibilities towards different classes, the cost of production and the price of the commodity will increase, which will be against the interest of customers.
2. ***Ethics and profit motive are the two different things:*** The sole aim of the business is to earn more and more profit. If it becomes moral entity, its sole aim will be adversally affected.
3. ***Social welfare is the responsibility of the government:*** It is the responsibility of the Government of the land to adopt various schemes and measures for the upliftment of the weaker section of the society. Business has no relationship with welfare schemes.
4. ***Danger of dictatorship:*** If the business is allowed to build a society at its sweet will, the business will be the dictator and architect of its own fortune. Such state of affairs will also be fatal to the interest of the society and common masses.
5. ***Ambiguity of the term business ethics:*** The term business ethics is ambiguous. It has got no specific meaning. It is wide enough to include a lot of things. Unless the Govt. specifies the meaning of the business ethics and entrusts the business house clearly definite and specifically verifiable assignment of business ethics, no venture can be made responsible for it.

5.37. Social Responsibility Towards Different Interest Groups

Business being a socio-economic institution has interaction with several interest groups such as government, community, consumers, owners and employees. In order to attain social objectives and values, the business has to serve all these interest groups.



Responsibilities of the Business Towards Owners/Investors/ Shareholders



Every business needs capital to commence and conduct the affairs of the business. In case of sole proprietorship the capital is provided by the entrepreneur himself. In case of partnership, it is supplied by partners themselves, but in case of Joint stock companies, the capital is supplied by shareholders. Sole proprietorship and partnership is managed by the owners themselves, therefore they look after their interests but in case of joint stock companies, shareholders, being virtual owner are reduced to be the nominal owners, because the company is managed by Board of Directors. Shareholders practically, have no say in the management of company. Their relationship with their company is indirect. The special position of the shareholders demands that the business should have the following responsibilities towards them:

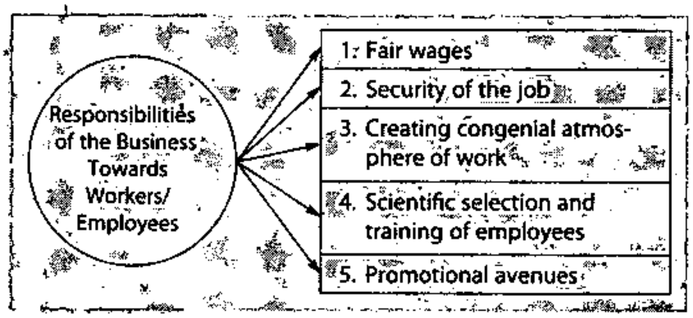
1. **Provision of dividend at reasonable rates.** The shareholders must get dividend at the prevailing rate of return in the capital market. In case the dividend is paid at lower rates or not paid, shareholders will like to withdraw their funds from the company. The general rate of dividend is between 5 to 25%.
2. **Regular payment of dividend.** Dividends should be paid, every year at regular interval, so that shareholders may plan about their source of income and its application.
3. **Increase in the value of Investment.** There is generally an increase in the value of assets *i.e.*, land and building, etc. so it is the responsibility of the company to make an increase in the value of its shares and its assets in the business. There can be increase in value of shares, if the company earns more profit and declares dividend at higher rates.

Notes

4. **Control over the use of the funds.** Subscribing for shares is a risk investment. It is the unsecured liability of the company. There is always a danger of shareholders funds being misused by the board of directors. It is, therefore, necessary that shareholders should have control over their funds.

5. **Representation of minority shareholders.** In general majority shares are held by interested group of industrialists, who virtually own and manage the affairs of the company, thus the interest of minority group of shareholders is neglected, such a state of affairs should not be allowed to happen.

Responsibilities of Business Towards Workers/Employees



Workers are essential, active and emotional factor of the business. They do not only work as a factor of production but also activate other factors. It is rightly said that owner simply contributes capital in the business, but the employees dedicate their entire life for it. It is, thus very essential, that the business should fulfill its humane, social and business obligation towards human factor in the venture. The responsibility of the business towards workers may be enumerated and discussed as under:

1. **Fair wages.** It is the social, moral, humane and the business responsibility of every venture to pay reasonable amount of wages and salaries to employees, so that they can lead a respectable life in the society and maintain their efficiency in the work. The enterprise must pay the minimum wages prescribed by the Government for that type of work.

   Wages should be determined after taking into consideration the remuneration being paid by other ventures, cost of living and financial and non-financial incentives being provided to workers.

2. **Security of the job.** Worker's job must be safe and secure, so that he may feel himself to be the permanent asset of the business and contribute his best of efforts and energies to the business. If the worker is under constant fear of being removed and retrenched, he will not be able to render his best services. The business should satisfy itself with the efficiency of the worker at the time of his appointment, but once he is appointed, it will be in humane to kick him out for any negligence.

3. **Creating congenial atmosphere of work.** Working conditions must be healthier and refreshing. The place of work should be spacious, clean, properly ventilated, and free from dirt and suffocation. There should

be proper arrangement of safety measures to avoid accidents. It will be highly appreciated, if there are beautiful parks and greeneries, so that the employee may not have feeling of fatigue.

Notes

4. **Scientific selection and training of employees.** The selection and appointment of workers should not be made on emotional preferences, but should be based upon objective testing. Employees should be selected strictly as per the requirements of the work. In other words, right workers should be appointed for right jobs.

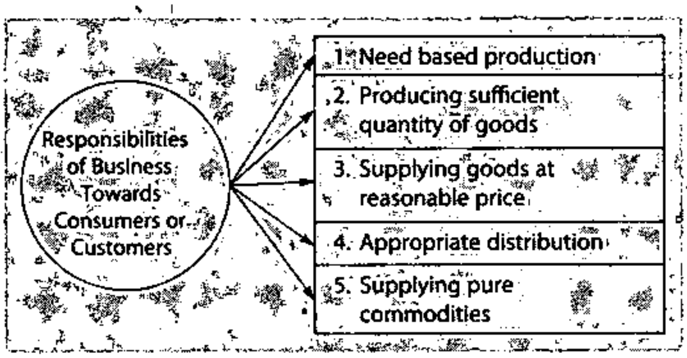
   Selected workers should be imparted requisite training, so that they may be more useful to the business enterprise.

5. **Promotional Avenues.** Every employee desires his promotion. In case of more promotional avenues, workers work sincerely to attain the higher status. Promotional opportunities are constant source of incentives to the employees. Promotions are justified on humanitarian grounds. In case, there is no provision for professional growth, employees will stagnate on a particular scale of pay without any incentive to work more and better. It is therefore, the obligation of the business to provide chances of promotion to workers.

We may conclude the social obligation of business towards employees in the words of our late *Prime-minister Pandit Jawahar Lal Nehru:*

"In the present economic and industrial structure, the relationship between workers and owners should not be that of owner and workers but workers should be treated as partner and colleague and in this way, there can be the peaceful solution of all the economic problems."

Responsibilities of Business Towards Consumers and Customers



Peter Drucker rightly views that *the customers are the foundation stone of business*. The ultimate end of the business operations is to achieve maximum profit, which can be achieved if produced goods and services are consumed by the customers. It is, therefore, necessary that the business should try its best to provide maximum satisfaction to customers, as such the business has the following obligation towards customers:

1. **Need based production.** The business should produce only those commodities which are needed by consumers. Goods must be according to the expectations and aspirations of the customers. In other words, it should have certain utility.

Notes

2. **Producing sufficient quantity of goods.** The customers should not be exploited with insufficient production. The shortage of goods creates black-marketing. It is, therefore, obligatory on the business to use its full available capacity to produce goods and never create artificial scarcity.
3. **Supplying goods at reasonable price.** Every business aims at producing goods at the minimum cost. It should also supply goods to consumers at reasonable price. The business should not take undue advantages of its upper hand in case of supplying commodities. The price of the commodity must be reasonable and competitive.
4. **Appropriate distribution.** The producers and manufacturers should make their goods and services available at appropriate places and time, so that customers may not face more difficulties in acquiring it. The increase in the number of middlemen will increase the price. The channels of distribution must be sufficient to maintain the smooth supply of goods to customers.
5. **Supplying pure commodities.** All the goods produced and manufactured by the business should have utility to customers. It should be pure and unadulterated. These goods should never be harmful to human being. It will be fatal to the existence of mankind if there is adulteration in medicines and edible articles. No business should commit such human crime. The honest businessmen should keep themselves off from duplication, immitation and adulteration.

We may now safely conclude that the business has an obligation to supply sufficient quantity of standard commodities at reasonable rates and at appropriate place.

The importance of the customers in the business has been recognised and accepted by every one. Some of the important views are as under:

In the opinion of **Botlar,** *"the customer holds topmost place in the organisation chart"*. According to **International seminar on the social responsibility of business,** *"the business venture should avoid adulteration, substandard output, defective measurement, false and misleading advertisements and omission from service and courtesy. The business should try to achieve maximum satisfaction of customers"*.

Other Views

"Business Premises is for customers not the customers for the business."

"The satisfaction of customers is our motto."

"Customer is never at mistake."

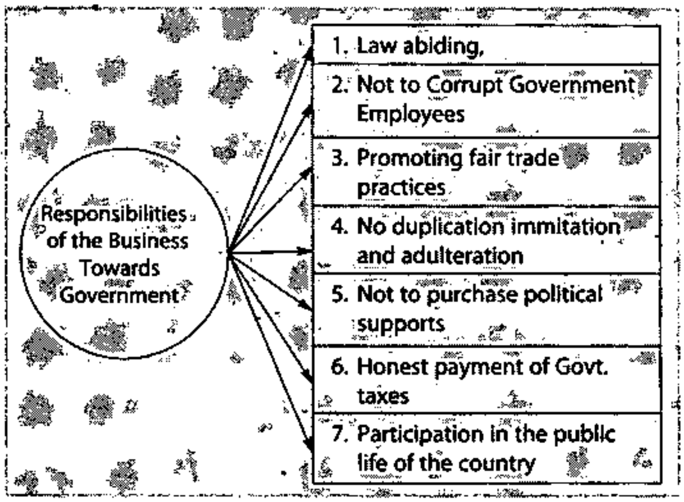
Responsibilities of the Business Towards Government

The ultimate aspiration of the modern democratic economy is the social and national welfare. It is, therefore, necessary, that all the resources of the country should be directed towards the national development. The planned developmental economy of the country also demands that the business should assume the following responsibility towards the government:

Notes

1. **Law abiding.** The business should be a legal entity. It should abide by the laws of the nation. It must honour the constitution and various provisions of different acts.

2. **Not to Corrupt Govt. Employees.** It will not be in the interest of the country that Govt. Employees be bribed by the big business houses to meet their ends.



3. **Promoting fair trade practices.** The business should be well-behaved and honest in their dealings. They should supply pure commodities and always go on improving the qualities of the products. They should not indulge in leg-pulling of one another. Healthy Trade Practices are necessary to upkeep, the prestige of the country in international trade.

4. **No duplication, immitation and adulteration.** It will be an anti-national activity on the part of the business to indulge in the adulteration and immitation. This is an in humane activity. It also proves fatal to the citizens of the country.

5. **Not to purchase political supports.** The big business houses should not purchase the members of Parliament and Assemblies to meet their selfish ends. Such activities are harmful to the nation.

6. **Honest Payment of Govt. Taxes.** The business houses should be sincere and honest in the calculation and payment of Income-tax, Sales-tax and other levies.

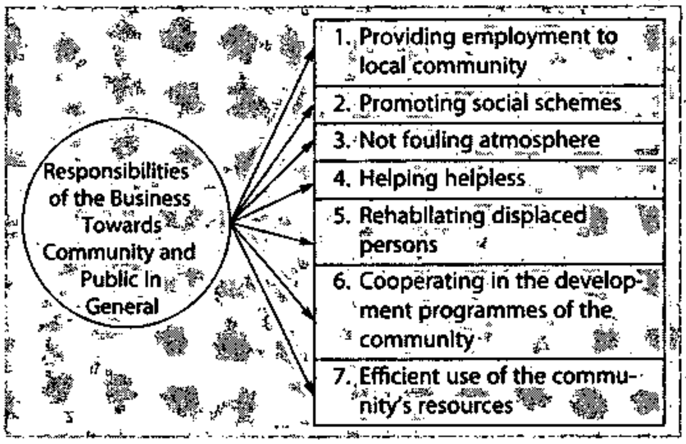
7. **Participation in the public life of the country.** The business should help in the implementation of the Govt. Policies. It becomes the moral duty of the business to obey the different laws of the land and advise others to honour the laws. It should be the sincere effort of the business to establish and maintain peace in the country.

Responsibilities of the Business Towards Community and Public in General

The businessman should be an ideal citizen of the country, as such he should assume the following responsibility towards community:

Notes

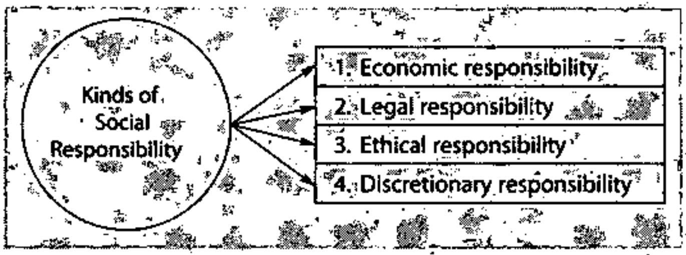
1. **Providing employment to local community.** The business has its first responsibility towards the locality, where it is situated. It should accord priority in the matters of employment to persons of the community.



2. **Promoting social schemes.** The business should assume the responsibility for the education, medical treatment and housing accommodation to the inhabitants of the community. It should also cooperate other agencies in providing these facilities to the community.
3. **Not fouling atmosphere.** The business should make the proper arrangement for the disposal of the smokes, dust, dirt, wastes, and scraps, etc. and not foul the environment.
4. **Helping helpless.** The local needy poor, handicapped and economically backward people should be sympathetically accommodated. They should be provided with jobs or training. It is the social obligation of the business to accommodate these types of people on humanitarian ground.
5. **Rehabilating displaced persons.** It is the moral duty of the business to provide employment to displaced persons. It should also try to solve their residential problems.
6. **Cooperating in the developmental programmes of the community.** It will be highly appreciated if the business adopts the villages or towns, where it is located and assumes responsibility for the development of the community. In case the business cannot develop the locality all alone, it should assist other social and national agencies in their programmes for the development of the community.
7. **Efficient use of the community's resources.** The business should make its best efforts to make the best possible use of the raw material, tools and technique available in the community. The business should try to develop and assist in developing the local resources. The unutilised resources should also be put to uses.

5.38. Kinds of Social Responsibility

Social responsibility of the business can be classified into the following four categories:



Notes

1. **Economic responsibility.** No doubt, business is an economic activity. Therefore, the primary responsibility of the business is economic. It should produce goods and services as per needs of the society and sell them at a profit. There is no dispute regarding honouring economic responsibility by the business.
2. **Legal responsibility.** Every business should carry on its business as per the law of the land. The Government has enacted various laws and regulation in the interest of the business and society. The businessmen are required to behave as a socially responsible citizen and abide rules and regulations.
3. **Ethical responsibility.** It is the responsibility of the business in the interest of the society. It is not a law. The business may or may not honour ethical responsibility.
4. **Discretionary responsibility.** It is purely voluntary for the business to assume this responsibility. For example, providing donation to charitable, educational institutions or helping floods and earthquake victims.

5.39. Environment Protection and Business

Business, as we know is an economic activity of generating income through buying and selling, manufacturing and rendering auxilary services to trade. Modern business is not independent. It cannot work in isolation. It is the economic and social organ of the society, so it must achieve its economic goal. It can not ignore the interest of the society. The government of the country has also the interest in business affairs. It enacts legislations, formulates business policies and controls business in the best interest of the public. **Business as the vital organ of the society must protect environment from pollution.**

After independence, Indian cities have extended greatly due to the growing population. Due to the lack of legal control, air and water pollution spread in urban areas because of the industries that were established in these areas. Although gradually these industries have been shifted to the outer places. Small and middle sized industries are the serious cause for environmental problems in urban areas, The condition of national capital Delhi is worse. Here 12355 industries are metal product industries. Consequently, Delhi is the most polluted city of the country. According to a report of centre for science and environment, more than 50,000 deaths occur every year due to air pollution.

Types/Causes of Environmental Pollution

Pollution is the main problem with the contemporary industries of today. Along with noise pollution, air, water and sound pollution should also be taken into consideration by governments and business. The causes of these environmental pollution are following:

Notes

1. **Air Pollution.** Air pollution occurs when several factors destroy the quality of air collectively. Carbon monoxide by automobiles pollutes the air. Alongwith it smoke from factories also pollutes the air.
2. **Water Pollution.** Water becomes polluted, when chemicals and other waste materials are dumped into it. For many years, cities and businesses dumped waste material into rivers, lakes and streams which is cause for the pollution.
3. **Land Pollution.** Land pollution emerged with the problem of waste material on the land. The main problem that we have today is the disposal of solid waters. However, new methods are adopted here but still there is the problem, how to prevent future contamination.
4. **Noise Pollution.** Noise caused by the running of factories and vehicles is not merely a source of annoyance but is also a serious health hazard. Noise pollution can be responsible for many diseases like loss of hearing, malfunctioning of the heart and mental disorder.

Environmental Problems

The United Nations has identified eight problems that cause damage to the natural environment. These are:

(*i*)	Ozone Depletion	(*v*)	Fresh water quality and quantity
(*ii*)	Global Warming	(*vi*)	Deforestation
(*iii*)	Solid and Hazardous Wastes	(*vii*)	Land Degradation
(*iv*)	Water Pollution	(*viii*)	Danger to Biological Diversity

Need for Pollution Control

In our surroundings pollution can be found mostly in all walks of survival like water, air and land. So, water is unfit to drink, air is harmful to breath and land is unfit to live. Here are the following measures to solve these problems:

1. **Aesthetic objective.** Visibility will improve with the improvement in the quality of air. To prevent pollution from blackening buildings, to reduce the foul odour from streams, rivers or lakes reduce the level of noise so that normal conversation can be carried on.
2. **Reducing inconvenience.** Water pollution can be dangerous physically and economically for fishing and swimming. Air pollution may cause eyes problem. So, in order to reduce inconvenience pollution control is necessary.
3. **Preventing economic losses.** There are many economic losses which can be reduced by pollution control. Pollution control can reduce cleaning and washing expenditures. Expenditure for the damage of building will also get reduced.
4. **Reducing safety hazards.** Pollution can cause hazards for aircraft trying to land or take off, and accidents on highway.

5. **Reducing health hazards.** We can reduce many diseases like—heart disease, lungs disease, cancer etc. by pollution control.

Approaches to Pollution Control

Notes

Pollution can be controlled by many ways. Following are the measures of pollution control:

1. **Environmental evaluation.** The first approach is to evaluate industrial activity before it is undertaken. By this evaluation we can examine the primary and secondary effects of these industries.
2. **Setting-up of pollution standards.** A maximum limit should be fixed for the pollutants. In case of small cars, Euro II is the well known pollution standard.
3. **Regulation.** Government should order the industries and municipal corporations to dump their waste materials through a specific technology and method, so that pollution can be reduced.
4. **Ban.** This approach checks chemicals whether they are safe or can create hazard. These substances will be banned by the government, so that they can not create pollution. One example of this technique is Toxic substances control legislation.

Environment Protection Regulation. In India after the Bhopal gas tragedy the necessity for the classification of industries was felt. Like those industries which affect human life and environment directly and to those who do not adversely affect human life and environment. This tragedy or accident also showed some defects in the Indian Environment legislation. Thus government made some amendment.

Role of Business in Environmental Protection

It is the collective responsibility to protect the environment from being spoiled. Business as an organ of the society should also protect environment. The Government can enact laws for the protection but its implementation lies with the citizens. Business enterprises have the financial resources and technological ability to prevent pollution. It is said that the business is the major pollution creater so, it must control itself.

5.40. Major Environmental Pollution Control Activities

1. National conservation strategy in 1992, policy statement for environment and development, Policy statement for abatement of pollution 1992, National Forest Policy 1988 and in 1986. Environment (Protection) Act were initiated for pollution control.
2. Standards related to air, water and noise levels were formulated by a multi-disciplinary group keeping in view the international standards, technologies and impact on health and environment.
3. Action plans and identification of 17 categories of major polluting industries.
4. Identification of 24 major polluted areas for pollution control.

Notes

5. Factories were asked to use coal wherein percentage of smoke will not be more than 34%.
6. Action plans for 141 polluted rivers started.
7. In order to reduce the pollution from automobiles, cleaner fuels, low sulphur diesel and Compressed Natural Gas (CNG) should be used at the manufacturing stage.
8. Starting of clean technologies for big industries.
9. For the clusters of SSI units 'Common Effluent Plants' was set up.
10. Eco mark scheme started to increase the production/consumption of Environment friendly products.
11. A zoning atlas was prepared to get environmental information at district level.
12. Environmental epidemiological studies were initiated in seven critically polluted areas to study the impact of environment on health.
13. Financial assistance to initiate pollution control environments and to shift industries in the outer places.
14. Environment pollution (Prevention and control) authority was established.
15. Prohibition of smoking in public places and use of polythene bags.

5.41. Business Ethics

Ethics is a set of moral values, rules of conduct and professional morality. Business ethics refers to personal conduct and moral duty of business towards different sections of the society. According to **W.O. Wheeler**, *"Business ethics is an art or science of maintaining a proper harmonious relationships with society and various group and institutions as well as recognising the moral responsibility for the rightness or wrongness of business conduct"*. Business Ethics, as such is the set of values, principles and standard governing the moral conduct of the business. **Assuming higher degree of morality towards consumers, workers, shareholders and society is to observe business ethics.** Observance of business ethics is not to indulge in:

(*i*) Corrupt practices *i.e.*, corrupting public servant for getting favours

(*ii*) Evasion of taxes

(*iii*) Defrauding with customers

(*iv*) Misbehaving with employees

(*v*) Exploiting workers

(*vi*) Selfishness

(*vii*) Pollution of the atmosphere.

Notes

Ground Rules of Ethics

These are in the nature of some universal virtues which every human being should imbibe, develop and practice to be ethical in life;

(*a*) Be trustworthy

(*b*) Have respect for others

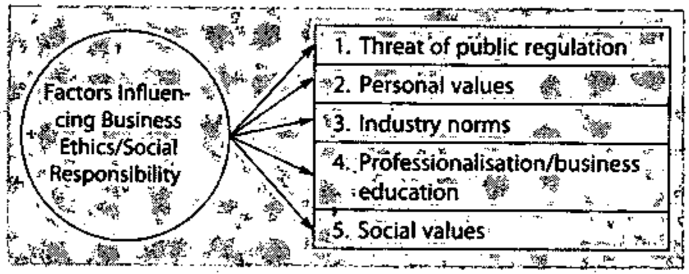
(*c*) Own responsibility

(*d*) Be fair in dealings

(*e*) Be caring towards well being of others,

(*f*) Prove to be a good citizen-through civil virtues and duties.

Factors Influencing Business Ethics/Social Responsibility

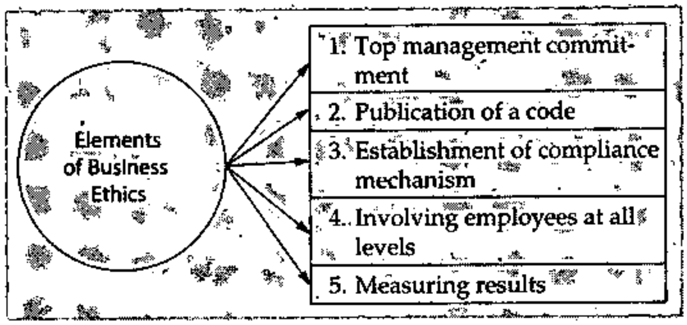


1. **Threat of public regulation.** Businessmen usually adopt unethical practices to get richer, so the government has to enact legislation to keep check on their malpractices. Certain important legislations are Essential Commodities Act, 1955, Prevention of Food Adulteration Act, 1976, Drugs and Cosmetics Act, 1946, Prevention of Black-marketing and maintenance of supplies of Essential Commodities Act, 1980, Consumers Protection Act, 1986, Factory Act and Employees Estate Insurance Scheme, etc.
2. **Personal values.** Business ethics is also influenced by individual's thinking, ideology, beliefs and values. An honest businessman must keep its personal interest subordinate to the interest of the society.
3. **Industry norms.** There is specific code of conduct for different classes of the business. An individual working in the enterprise has to observe the code of conduct of the enterprise, and norms established by the industry.
4. **Professionalisation/Business education.** Managers professionally qualified have higher degree of ethical values and sense of social commitment, whereas family managers do not care much for business ethics. These days professionalisation of management has been generating more ethics in the business.
5. **Social values.** Morality, behaviour, beliefs emerge from social values. Social forces exercise influence on business to observe ethics in the business.

Elements of Business Ethics

The business must observe the following basic elements of business ethics:

Notes



1. **Top management commitment.** It is the top management, which takes decisions, initiates action and the leads the organisation towards business ethics. The CEO and higher level managers must make sustained efforts towards honouring social commitments.
2. **Publication of a code.** The enterprises must develop a code containing the definite ethical programme. It may be regarding honesty, abiding by law, product quality, safety, health care, refreshing working conditions and fair business practices.
3. **Establishment of compliance mechanism.** The suitable mechanism should be developed to comply with the ethical standard of the enterprise. This mechanism should be regarding paying attention to values of ethics in the recruitment, training, auditing and reporting.
4. **Involving employees at all levels.** The involvement of all the employees in the ethical programme is must. Employees' representative must be taken into confidence while framing documents on ethics. It should be noted that employees participation in ethical activities is essential.
5. **Measuring results.** It is always in the interest of the organisation to evaluate its ethical achievement. For this purpose actual performance should be measured and compared with desired performance, weaknesses should be noted and corrective measures should be applied.

Origin of Three Similar Concepts

(*a*) **Corporate Social Responsibility.** It originated in U.S.A., where Government had passed Anti-Trust Act against monopolistic practices, so as to protect and improve the welfare of society.

(*b*) **Business Ethics.** This also originated in U.S.A. in the 1970s. Business ethics highlighted social values and society's concern in relation to business and forced the corporate in that country to abstain from policies and practices which were hostile to consumer practices which were hostile to consumer protection and environment protection.

(*c*) **Corporate Governance.** It originated in the U.K. for the purpose of improved accountability of directors to shareholders, emphasis on more transparent auditing and increased responsibilities of independent directors, and division of roles of chairman and managing directors for safeguarding interests of shareholders.

5.42. Summary

Notes

- **Meaning of E-business**

  E-business may be defined as the conduct of industry, trade and commerce using the computer network.

- **E-business v/s E-commerce**

  Though both the terms are used intra changeabily but there is precise distinction between the two. E-business is broader than E-commerce as business is wider than commerce.

- **Meaning of Electronic Commerce**

  E-commerce is online electronic technology connected via the internet to assist and enhance a variety of business processes, functions and systems.

- **Opportunities of E-business**

  E-business offers great opportunities for developing countries. It can help them to enter the prosperous global marketplace and hence serve to reduce the gap between rich and poor countries.

- **Scope of E-business**

  (*i*) B2B – a firm's transactions with other businesses.

  (*ii*) B2C–a firm's interaction with its customers.

  (*iii*) Intra B–a firm's internal processes.

- **Traditional Business v/s E-business**

  Basis of distinction: (1) Ease of formation, (2) Physical presence, (3) Locational requirements, (4) Cost of setting up, (5) Operating cost, (6) Nature of contact with the supplier and the customers, (7) Nature of internal communication, (8) Response time for meeting customers'/internal requirements, (9) Shape of the organizational structure, (10) Business processes and length of the cycle, (11) Opportunity for inter-personal touch, (12) Opportunity for physical pre-sampling of the products, (13) Ease of going global.

- **Some E-business Applications**

  (A) E-procurement (B) E-bidding/E-auction

  (C) E-communication/E-promotion (D) E-delivery

  (E) E-trading.

- **Benefits of E-business**

  (1) Improvement in productivity, (2) Less clerical work, (3) Secure and safe operations, (4) Reduction in man power requirement, (5) Fastest Processing of transactions, (6) Economy of time and energy, (7) Ease of information, (8) Business is online and near realtime, (9) Paperless official work.

- **Limitations of E-business**

  (1) Low personal touch, (2) Need for technological capabilitity and competence of parties to E-business, (3) Long time to complete transaction, (4) Increased risk due to anonymity and non-traceability of parties.

Notes

- **Resources Required for Successful E-business Implementation**

  (1) Competent workforce, (2) Computer system, (3) Internet connection, (4) Comprehensive website, (5) Effective tele-communication system.

- **Online Transactions**

  Operationally, one may visualize three stages involved in online transactions. Firstly, the prepurchase/sale stage including advertizing and information-seeking, secondly, the purchase/sale stage comprized of steps such as price negotiation, closing of purchase/sales deal and payment, and thirdly, the delivery stage.

- **Security and Safety of Business Transactions**

  (1) Broad-Hijacking, (2) Hacking, (3) Viruses

- **Meaning/Concept of Outsourcing Services**

  Outsourcing is the latest trend in today's business world, going outside your own organization to obtain specialized services of various kinds.

- **Nature/Features of Outsourcing**

  (1) Getting work done through outsider, (2) Quality job, (3) Improvement in quantity of products, (4) Expansion of business, (5) Better standard of living, (6) Outsourcing generally involves non-core business activities, (7) Benefits from the expertise and experience of others.

- **Advantages/Need of Outsourcing**

  (1) Concentration on core competency, (2) Enhancement of business, (3) Specialization, (4) Obtaining better quality of product services, (5) Big saving, (6) Avoidance of labour problems.

- **Types of Outsourcing Services**

  (1) Financial services, (2) Advertizing services, (3) Courier services, (4) Customer support services.

- **Limitations of Outsourcing**

  (1) Low efficiency, (2) Disintegration of business, (3) Risk, (4) Legal Risk, (5) Loss of control.

- KPO or Knowledge Process Outsourcing means allocating high level tasks to an outside group on an organization located in different geography.

- **Scope of KPO**

  Various type of jobs such as analytical and knowledgeable research, technical analysis, etc. comes under scope of KPO.

- **Smart Card and ATM**

  Smart card is a plastic card about the size of credit card having micro chip embedded is used for making electronic cash payments.

  ATM is a device which enable a person to perform financial transactions independently.

- **Social Responsibility and ethics of the business** is to follow those lines of actions, which are desirable in terms of the objectives and values of the society.

- **Concept of Social Responsibility**

  The business is formed within the society, with the resources of the society and to satisfy the needs of the society.

Notes

The business has obligation towards the following:

(*i*) Responsibility towards ownself.

(*ii*) Responsibility towards owners/investors.

(*iii*) Responsibility towards workers/employees.

(*iv*) Responsibility towards consumers/customers.

(*v*) Responsibility towards Government.

(*vi*) Responsibility towards community and public in general.

- Business responsibility means the reasonable evaluation of all resources and their effective direction to meet business social commitments.
- **Case for Social Responsibility**

The concept of social responsibility implies that it is an ethical issue. It is the question of morality. It is concerned with, what is morally wrong or right in relation to firm's responsibility.

- **Arguments in Favour of Assuming Social Responsibility**

(*i*) Democratic attitude of the government

(*ii*) Consumers' interest

(*iii*) Political views

(*iv*) Foreign influence

(*v*) Stress on business ethics

(*vi*) Conclusion.

- **Arguments Against Assuming Social Responsibility**

(*i*) Consumers' interest

(*ii*) Ethics and profit motive are the two different things

(*iii*) Social welfare is the responsibility of the government

(*iv*) Danger of dictatorship

(*v*) Ambiguity of the term business ethics.

- **Social Responsibility towards different Interest Groups**

1. Responsibilities of the Business Towards Owners/Investors

(*i*) Provision of dividend at reasonable rates

(*ii*) Regular payment of dividend

(*iii*) Increase in the value of investment

(*iv*) Control over the use of the funds

(*v*) Representation of minority shareholders.

2. Responsibilities of the Business Towards Workers/Employees

(*i*) Fair wages

(*ii*) Security of the job

(*iii*) Creating congenial atmosphere of work

(*iv*) Scientific selection and training of employees

(*v*) Promotional avenues.

Notes

3. **Responsibilities of the Business Towards Consumers/Customers**
   (*i*) Need based production
   (*ii*) Producing sufficient quantity of goods
   (*iii*) Supplying goods at reasonable price
   (*iv*) Appropriate distribution
   (*v*) Supplying pure commodities.
4. **Responsibilities of the Business Towards Government**
   (*i*) Law abiding
   (*ii*) Not to corrupt government employees
   (*iii*) Promoting fair trade practices
   (*iv*) No duplication, immitation and adulteration
   (*v*) Not to purchase political supports
   (*vi*) Honest payment of government taxes
   (*vii*) Participation in the public life of the country.
5. **Responsibilities of the Business Towards Community and Public in General**
   (*i*) Providing employment to local community
   (*ii*) Promoting social schemes
   (*iii*) Not fouling atmosphere
   (*iv*) Helping helpless
   (*v*) Rehabilating displaced persons
   (*vi*) Cooperating in the developmental programmes of the community
   (*vii*) Efficient use of community's resources.

- **Kinds of Social Responsibility**
  1. Economic responsibility
  2. Legal responsibility
  3. Ethical responsibility
  4. Discretionary responsibility.
- **Business and Environment Protection.** Business as social organ must protect the environment from pollution.
- **Types/Causes of Environmental Pollution**
  1. Air pollution
  2. Water pollution
  3. Land pollution
  4. Noise pollution.
- **Need for Pollution Control**
  1. Aesthetic objective
  2. Reducing inconvenience
  3. Preventing economic losses
  4. Reducing safety hazards
  5. Reducing health hazards.

- **Approaches to Pollution Control**

  1. Environmental evaluation 2. Setting up of pollution standards
  3. Regulation 4. Ban

- **Major Environmental Pollution control activities:**

  Please refer to the chapter within the book.

- **Role of Business in Environmental Protection**

  It is the collective responsibility including business to protect environment from being spoiled.

- **Business Ethics.** Set of moral values, rules of conduct, and professional morality of the business is known as business ethics.
- **Factors Influencing Business Ethics/Social Responsibility**

  (*i*) Threat of public regulation

  (*ii*) Personal values

  (*iii*) Industry norms

  (*iv*) Professionalisation/business education

  (*v*) Social values.

- **Elements of Business Ethics**

  1. Top management commitment 2. Publication of a code
  3. Establishment of compliance mechanism
  4. Involving employees at all levels 5. Measuring results.

5.43. Review Exercises

1. What is electronic business? Explain its uses.
2. What are the opportunities of E-business? Explain in brief.
3. Enumerate the benefits of internet/electronic business.
4. How electronic business is better method of dealing business transactions?
5. Name the resources required for E-business. Explain any one of them.
6. Which type of technology is required for dealing with E-business? Explain it briefly.
7. Explain the meaning of outsourcing.
8. Explain briefly the uses of outsourcing sources.
9. What are the types of outsourcing services?
10. How uses of outsourcing sources is helpful for the enhancement of business?
11. Explain the meaning:

    (*i*) Broad Hijacking

    (*ii*) Hacking

    (*iii*) Virus.
12. Explain the technology of E-business and its benefits for the business world.

Notes

13. Discuss the sources which are required for the implementation of successful E-business.
14. How electronic business (E-business) is more safe and secure for the modern business?
15. Briefly explain the opportunities of internet/electronic business for consumers, producers, and manufacturers.
16. Explain the meaning of E-business and its uses to business.
17. What do you understand by specialization of work? Explain.
18. Explain the four types of outsourcing services.
19. What is the need of outsourcing sources to the business?
20. Discuss the nature of outsourcing.
21. How has technology changed business?
22. What are the opportunities and benefits offered by E-business?
23. Explain different types of outsourced services.
24. What are the uses of smart cards and ATM?
25. How does an ATM work?
26. Define corporate social responsibility.
27. What is the need for corporate social responsibility?
28. Give some factors that determine CSR.
29. What are barriers to social responsibility?
30. Write about CSR amendments under the companies Amendment Act 2019.
31. What are the benefits of employees from corporate social responsibility?
32. What are aspects of each business?
33. What are CSR trends in India? Give also some examples.
34. What do you understand by social responsibility of business? How is it different from legal responsibility?
35. What is environment? What is environmental pollution?
36. What is business ethics? Mention the basic elements of business ethics.
37. Briefly explain (*a*) Air pollution, (*b*) Water pollution and (*c*) Land pollution.
38. What are the major areas of social responsibility of business?
39. Define social responsibilities.
40. Mention four parties towards which the business has responsibilities.
41. "Customers are the foundation of the business". Explain this statement.
42. What do you mean by social consciousness of consumers?
43. Mention steps taken by the business to adopt fair trade practices.
44. "There is a strong case for the business to fulfill its social obligations." Give five reasons in support of your answer.
45. Explain the meaning of social responsibility.
46. Explain the social responsibility of business towards consumers.

47. Discuss the responsibilities of the business towards workers.
48. Describe the responsibilities of the business towards itself.
49. What are the responsibilities of the business towards the government? Explain briefly.
50. Should business assume social responsibilities? Offer your arguments in favour and against assuming social responsibilities.
51. Build up arguments for and against social responsibilities.
52. Discuss the forces which are responsible for increasing concern of business enterprises toward social responsibility.
53. 'Business is essentially a social institution and not merely a profit making activity'. Explain.
54. Why do the enterprises need to adopt pollution control measures?
55. What steps can an enterprise take to protect the environment from the dangers of pollution?
56. Explain the various elements of business ethics.
57. Why is the need of Corporate Social Responsibilities?
58. What are the barriers to social responsibility? Explain.
59. Write about corporate social.
60. What are the potential business of CSR?

Notes