Unit 1 Introduction- (8Hrs)

Business – Meaning, Definition, Nature & Scope

Business may be understood as the organized efforts of enterprise to supply consumers with goods and services for a profit. Businesses vary in size, as measured by the number of employees or by sales volume. But, all businesses share the same purpose: to earn profits.

The purpose of business goes beyond earning profit. There are:

- It is an important institution in society.
- Be it for the supply of goods and services
- Creation of job opportunities
- Offer of better quality of life
- Contributing to the economic growth of the country.

Hence, it is understood that the role of business is crucial. Society cannot do without business. It needs no emphasis that business needs society as much.

Scope of a business: The scope of a business usually covers several departments and covers a lot of different areas, depending on the company. For example, many corporations own several businesses and companies, meaning the corporation's business scope is quite large and potentially covers multiple products and markets. Smaller businesses, such as family-owned stores, have a smaller business scope as they are focused primarily on acquiring goods wholesale and selling those goods on to consumers at retail prices.

When starting a business, it is important to understand its scope of operation to write a proper business plan. For the sake of profits, most businesses engage in activities or focus on products and services that maximize their income. For example, a company that sells parts for appliances but does not offer servicing since doing both might spread its workforce too thin or negatively affect its profit margin. On the other hand, a business might decide to expand its scope to include services or products when it identifies a demand for such.

Business Today

Modern business is dynamic. If there is any single word that can best describe today’s business, it is change. This change makes the companies spend substantially on Research and development (R & D) to survive in the market. Mass production and mass marketing are the norms followed by business enterprises. The number of companies with an annual turnover of Rs.100 crore each was only three in 1969-70.The figure has gone up by hundreds these days. Today's business is characterized by diversification, which may be:

- **Concentric Diversification -** It refers to the process of adding new, but relates products or services.
- **Horizontal Diversification -** Adding new, unrelated products or services for present customers is called horizontal Diversification.
- **Conglomerate Diversification -** It refers to adding new and unrelated products or services.
- Going international is yet another trend followed by modern business houses. Business houses are exposed to global competition, which argues well for consumers. Also occupying a major role is science in the global economic scenario.

Business in 21st century

Large organizations, with a large workforce will not exist. They will be 'Mini' organizations. Business during the 21st century will be knowledge-based, tomorrow's manager need not spend his time on file pushing and paper-shufling. Information technology will take care of most of that work. Organizations will become flat. Linear relationship between the boss and manger and authority flowing downwards and obedience upward will disappear. Employees will have no definite jobs. Most of the jobs will last for two to five years. Remuneration will depend on one's contribution to organization.

Business goals

- **Profit** - Making profit is the primary goal of any business enterprise.
- **Growth -** Business should grow in all directions over a period of time.
- **Power -** Business houses have vast resources at its command. These resources confer enormous economic and political power.
- **Employee satisfaction and development** - Business is people. Caring for employee satisfaction and providing for their development has been one of the objectives of enlightened business enterprises.
- **Quality Products and Services** - Persistent quality of products earns brand loyalty, a vital ingredient of success.
- **Market Leadership -** To earn a niche for oneself in the market, innovation is the key factor.

- **Challenging -** Business offers vast scope and poses formidable challenges.
- **Joy of creation** - It is through business strategies new ideas and innovations are given a shape and are converted into useful products and services.
- **Service to society -** Business is a part of society and has several obligations towards it.

Types of Business Organisations

It is important that the business owner seriously considers the different forms of business organization—types such as sole proprietorship, partnership, and corporation. Which organizational form is most appropriate can be influenced by tax issues, legal issues, financial concerns, and personal concerns. For the purpose of this overview, basic information is presented to establish a general impression of business organization.

Sole Proprietorship

A Sole Proprietorship consists of one individual doing business. Sole Proprietorships are the most numerous form of business organization in the United States, however they account for little in the way of aggregate business receipts.

Advantages

- Ease of formation and dissolution. Establishing a sole proprietorship can be as simple as printing up business cards or hanging a sign announcing the business. Taking work as a contract carpenter or freelance photographer, for example, can establish a sole proprietorship. Likewise, a sole proprietorship is equally easy to dissolve.
- Typically, there are low start-up costs and low operational overhead.
- Ownership of all profits.
- Sole Proprietorships are typically subject to fewer regulations.
- No corporate income taxes. Any income realized by a sole proprietorship is declared on the owner's individual income tax return.

Disadvantages

- Unlimited liability. Owners who organize their business as a sole proprietorship are personally responsible for the obligations of the business, including actions of any employee representing the business.
- Limited life. In most cases, if a business owner dies, the business dies as well.

- It may be difficult for an individual to raise capital. It's common for funding to be in the form of personal savings or personal loans.

The most daunting disadvantage of organizing as a sole proprietorship is the aspect of unlimited liability. An advantage of a sole proprietorship is filing taxes as an individual rather than paying corporate tax rates. Some hybrid forms of business organization may be employed to take advantage of limited liability and lower tax rates for those businesses that meet the requirements. These include S Corporations, and Limited Liability Companies (LLC's). Where S-Corps are a Federal Entity, LLC's are regulated by the various states. LLC's give the option for profits from the business to pass through to the owner's individual income tax return.

Partnership

A Partnership consists of two or more individuals in business together. Partnerships may be as small as mom and pop type operations, or as large as some of the big legal or accounting firms that may have dozens of partners. There are different types of partnerships—general partnership, limited partnership, and limited liability partnership—the basic differences stemming around the degree of personal liability and management control.

Advantages

- Synergy. There is clear potential for the enhancement of value resulting from two or more individuals combining strengths.
- Partnerships are relatively easy to form; however, considerable thought should be put into developing a partnership agreement at the point of formation.
- Partnerships may be subject to fewer regulations than corporations.
- There is stronger potential of access to greater amounts of capital.
- No corporate income taxes. Partnerships declare income by filing a partnership income tax return. Yet the partnership pays no taxes when this partnership tax return is filed. Rather, the individual partners declare their pro-rata share of the net income of the partnership on their individual income tax returns and pay taxes at the individual income tax rate.

Disadvantages

- Unlimited liability. General partners are individually responsible for the obligations of the business, creating personal risk.

- Limited life. A partnership may end upon the withdrawal or death of a partner.
- There is a real possibility of disputes or conflicts between partners which could lead to dissolving the partnership. This scenario enforces the need of a partnership agreement.

As pointed out, unlimited liability exists for partnerships just as for sole proprietorships. One way to alleviate this risk is through Limited Liability Partnerships (LLP's). As with LLC's, LLP's may offer some tax advantages while providing some risk protection for owners.

Corporation

Corporations are probably the dominant form of business organization in the United States. Although fewer in number, corporations account for the lion's share of aggregate business receipts in the U.S. economy. A corporation is a legal entity doing business, and is distinct from the individuals within the entity. Public corporations are owned by shareholders who elect a board of directors to oversee primary responsibilities. Along with standard, for-profit corporations, there are charitable, not-for-profit corporations.

Advantages

- Unlimited commercial life. The corporation is an entity of its own and does not dissolve when ownership changes.
- Greater flexibility in raising capital through the sale of stock.
- Ease of transferring ownership by selling stock.
- Limited liability. This limited liability is probably the biggest advantage to organizing as a corporation. Individual owners in corporations have limits on their personal liability. Even if a corporation is sued for billions of dollars, individual shareholder's liability is generally limited to the value of their own stock in the corporation.

Disadvantages

- Regulatory restrictions. Corporations are typically more closely monitored by governmental agencies, including federal, state, and local. Complying with regulations can be costly.
- Higher organizational and operational costs. Corporations have to file articles of incorporation with the appropriate state authorities. These legal and

clerical expenses, along with other recurring operational expenses, can contribute to budgetary challenges.

- Double taxation. The possibility of double taxation arises when companies declare and pay taxes on the net income of the corporation, which they pay through their corporate income tax returns. If the corporation also pays out dividends to individual shareholders, those shareholders must declare that dividend income as personal income and pay taxes at the individual income tax rates. Thus, the possibility of double taxation.

BUSINESS ENVIRONMENT- Meaning, Characteristics, Scope and Significance

Environment refers to all external forces, which have a bearing on the functioning of business. Environment factors "are largely if not totally, external and beyond the control of individual industrial enterprises and their managements. The business environment poses threats to a firm or offers immense opportunities for potential market exploitation.
The term 'business environment' connotes external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise. These include customers, competitors, suppliers, government, and the social, political, legal and technological factors etc. While some of these factors or forces may have direct influence over the business firm, others may operate indirectly. Thus, business environment may be defined as the total surroundings, which have a direct or indirect bearing on the functioning of business. It may also be defined as the set of external factors, such as economic factors, social factors, political and legal factors, demographic factors, technical factors etc., which are uncontrollable in nature and affects the business decisions of a firm

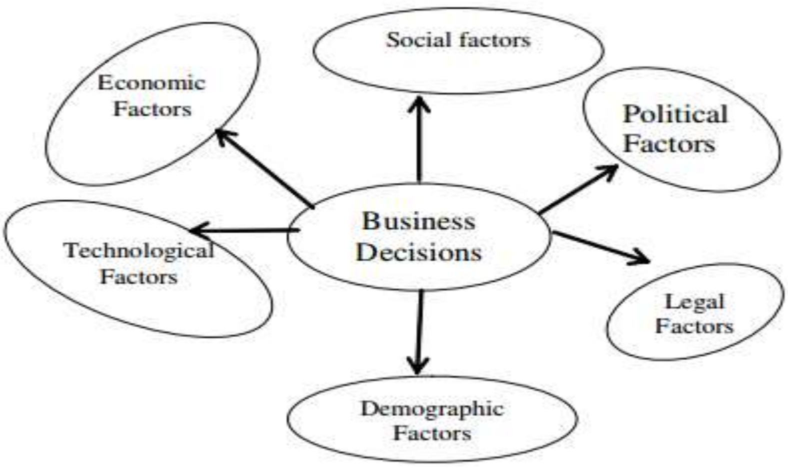


Fig1: Factors affecting Business Environment

Features of Business Environment

On the basis of the above discussion the features of business environment can be summarised as follows.

(a) Business environment is the sum total of all factors external to the business firm and that greatly influences their functioning.

(b) It covers factors and forces like customers, competitors, suppliers, government, and the social, cultural, political, technological and legal conditions.

(c) The business environment is dynamic in nature that means it keeps on changing.

(d) The changes in business environment are unpredictable. It is very difficult to predict the exact nature of future happenings and the changes in economic and social environment.

(e) Business Environment differs from place to place, region to region and country to country. Political conditions in India differ from those in Pakistan. Taste and values cherished by people in India and China vary considerably.

Importance of Business Environment

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

(a) Determining Opportunities and Threats: The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.

(b) Giving Direction for Growth: The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.

(c) Continuous Learning: Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.

(d) Image Building: Environmental understanding helps the business organisations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power.

(e) Meeting Competition: It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly.

(f) Identifying Firm's Strength and Weakness: Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments

Components of Business Environment

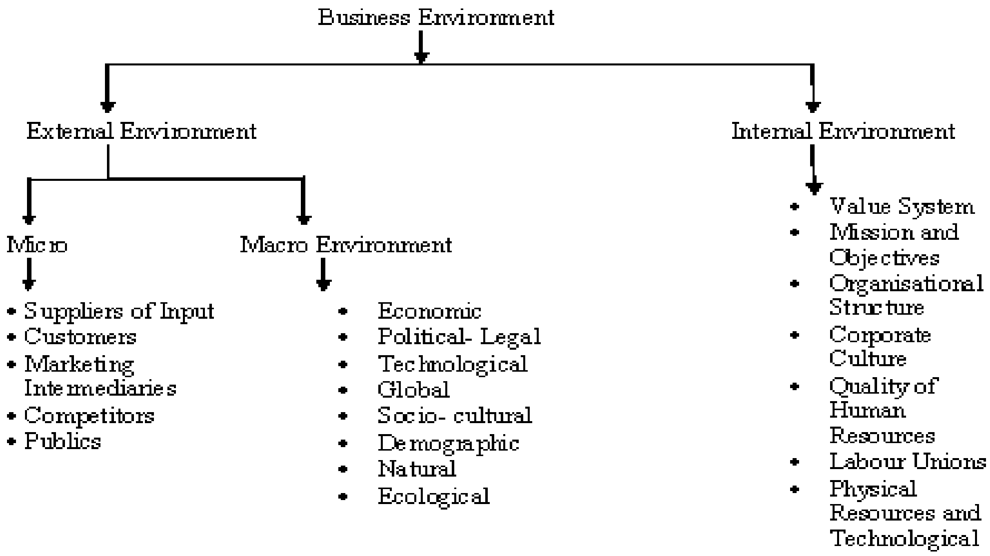


Fig: Components of Business Environment

Introduction to Micro-Environment – Internal Environment:

1. Value system:- The value system of an organisation means the ethical beliefs that guide the organisation in achieving its mission and objective. The value system of a business organisation also determines its behaviour towards its employees, customers and society at large. The value system of the promoters of a business firm has an important bearing on the choice of business and the adoption of business policies and practices. Due to its value system a business firm may refuse to produce or distribute liquor for it may think morally wrong to promote the consumption of liquor.

For instance, the value system of J.R.D. Tata, the founder of Tata group of industries, was its self-imposed moral obligation to adopt morally just and fair business policies and practices which promote the interests of consumers, employees, shareholders and society at large. This value system of J.R.D. Tata was voluntarily incorporated in the articles of association of TISCO, a premier Tata company.

Infosys Technologies which won the first national corporate governance award in 1999 attributes its success to its high value system which guides its corporate culture. To quote one of its reports, "our corporate culture is to achieve our objectives in environment of fairness, honesty, transparency and courtesy towards our customers, employees, vendors and society at large" Thus value system of a business firm has an important bearing on its corporate culture and determines its behaviour towards its employees, shareholders and society as a whole.

2. Mission & Objectives: The objective of all firms is assumed to be maximization of long-run profits. But mission is different from this narrow objective of profit maximization. Mission is defined as the overall purpose or reason for its existence which guides and influences its business decision and economic activities.

The-choice of a business domain, direction of its development, choice of a business strategy and policies are all guided by the overall mission of the company. For example, "to become a world-class company and to achieve global dominance has been the mission of 'Reliance Industries of India'. Similarly "to become a research based international pharma company" has been stated as mission of Ranbaxy Laboratories of India.

3. Organizational Structure: Organisation structure means such things as composition of board of directors, the number of independent directors, the extent of professional management and share -holding pattern. The nature of organisational structure has a significant influence over decision making process in an organisation. An efficient working of a business organisation requires that its organisation structure should be conducive to quick decision making. Delays in decision making can cost a good deal to a business firm.

The board of directors is the highest decision making body in a business organisation. It takes general policy decisions regarding direction of growth of business of the firm and supervises its overall functioning. Therefore, the managerial capability of the board of directors is of crucial importance for the functioning of a business firm and for achievement of its overall mission and objectives.

It is therefore highly desirable to increase the extent of professional management of private corporate companies. The share holding pattern has also an important implication for business management. In some Indian companies the majority of shares is held by the promoters of the company themselves.
In some others share-holding pattern is quite diversified among the public. In India financial institutions such as UTI, LIC, GIC, IDBI, IFC etc. have large share holdings in prominent Indian corporate companies and the nominees of these financial institutions play a critical role in making major business policy decisions of these corporate companies.

4. Organizational Resources: Physical resources such as plant and equipment, and technological capabilities of a firm determine its competitive strength which is an important factor determining its efficiency and unit cost of production. R and D capabilities of a company determine its ability to introduce innovations which enhance productivity of workers.
It is however important to note that rapid technological progress, especially unprecedented growth of information technology in recent years has increased the relative importance of 'intellectual capital and human resources as compared to physical resources of a company. The growth of Bill Gates Microsoft Company and Murthy's Infosys Technologies is mostly due to the quality of human resources and intellectual capital than to any superior physical resources.
Along with the physical resource, Quality of employees (i.e. **human resources**) of a firm is an important factor of internal environment of a firm. The success of a business organisation depends to a great extent on the skills, capabilities, attitudes and commitment of its employees. Employees differ with regard to these characteristics.
It is difficult for the top management to deal directly with all the employees of the business firm. Therefore, for efficient management of human resources, employees are divided into different groups. The manager may pay little attention to the technical details of the job done by a group and encourage group cooperation in the interests of a company. Due to the importance of human resources for the success of a company these days there is a special course for managers how to select and manage efficiently human resources of a company.

5. Company Image: A **corporate identity** is the manner which a **corporation**, firm or business presents themselves to the public, such as customers and investors as well as employees. It is a primary task of the **corporate** communications department to maintain and build this **identity** to accord with and facilitate business objectives.

6. Brand Equity: Brand equity refers to a value premium that a company generates from a product with a recognizable name, when compared to a generic equivalent. Companies can create brand equity for their products by making them memorable, easily recognizable, and superior in quality and reliability. Mass marketing campaigns also help to create brand equity.

External Environment:

Firm: A firm is a business organization, such as a corporation, limited liability company or partnership that sells goods or services to make a profit. While most firms have just one location, a single firm can consist of one or more establishments, as long as they fall under the same ownership and, typically utilize the same Employer Identification Number (EIN). The title "firm" is typically associated with business organizations that practice law, but the term can be used for a wide variety or business operation units, such as accounting. "Firm" is often used interchangeably with "business" or "enterprise."

Customers: The people who buy and use a firm's product and services are an important part of external micro-environment. Since sales of a product or service is critical for a firm's survival and growth, it is necessary to keep the customers satisfied. To take care of customer's sensitivity is essential for the success of a business firm. A firm has different categories of customers.
For example, a car manufacturing firm such as Maruti Udyog has individuals, companies, institutions, government as its customers. Maruti Udyog, therefore, has catered to the needs of all these types of customers by producing different varieties and models of cars.

Suppliers: An important factor in the external environment of a firm is the suppliers of its inputs such as raw materials and components. A smooth and efficient working of a business firm requires that it should have ensured supply of inputs such as raw materials. If supply of raw materials is uncertain, then a firm will have to keep a large stock of raw materials to continue its transformation process uninterrupted. This will unnecessarily raise its cost of production and reduce its profit margin.
To ensure regular supply of inputs such as raw materials some firms adopt a strategy of backward integration and set up captive production plants for producing raw materials themselves.

Distributors: An entity that buys noncompeting products or product lines, warehouses them, and resells them to retailers or direct to the end users or customers. Most **distributors** provide strong manpower and cash support to the supplier or manufacturer's promotional efforts.

Competitors: Business firms compete with each other not only for sale of their products but also in other areas. Absolute monopolies in case of which competition is totally absent are found only in the sphere of what are called public utilities such as power distribution, telephone service, gas distribution in a city etc. More generally, market forms of monopolistic competition and differentiated oligopolies exist in the real world.

In these market forms different firms in an industry compete with each other for sale of their products. This competition may be on the basis of pricing of their products. But more frequently there is non-price competition under which firms engage in competition through competitive advertising, sponsoring some events such as cricket matches for sale of different varieties and models of their products, each claiming the superior nature of its products.

Society: Finally, Society is an important force in external micro environment. Public or society, according to Philip Kotler "is any group that has an actual or potential interest in or impact on a company's ability to achieve its objective". Environmentalists, media groups, women associations, consumer protection groups, local groups, citizens associations are some important examples of society which have an important bearing on environment of the firms.

For example, a consumer protection firm in Delhi headed by Sunita Narain came out with an amazing fact that cold drinks such as Coca Cola, Pepsi Cola, Limca, Fanta had a higher contents of pesticides which posed threat to human health and life. This produced a good deal of adverse effect on the sale of these products in 2003-04. The Indian laws are being amended to ensure that these drinks must not contain pesticides beyond European safety standards.

Introduction to Macro Components

Apart from micro-environment, business firms face large external environmental forces. The external macro environment determines the opportunities for a firm to exploit for promoting its business and also presents threats to it in the sense that it can put restrictions on the expansion of business activities. The macro-environment has thus both positive and negative aspects.

An important fact about external macro-environmental forces is that they are uncontrollable by the management of a firm. Because of the uncontrollable nature of macro forces a firm has to adjust or adapt itself to these external forces.

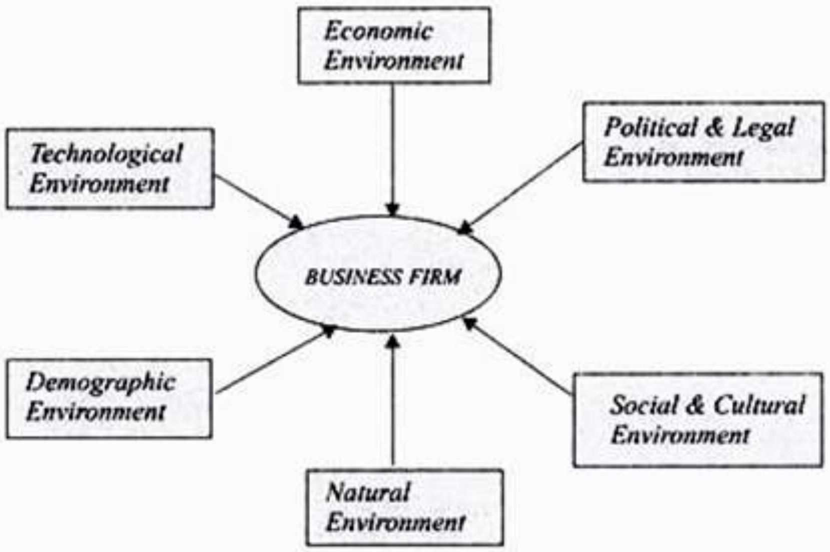


Fig. 1.3. *External Macro Environment*

1. Economic Environment:

Economic environment includes the type of economic system that exists in the economy, the nature and structure of the economy, the phase of the business cycle (for example, the conditions of boom or recession), the fiscal, monetary and financial policies of the Government, foreign trade and foreign investment policies of the government. These economic policies of the government present both the opportunities as well as the threats (i.e. restrictions) for the business firms.

The type of the economic system, that is, socialist, capitalist or mixed provides institutional framework within which business firm have to work. For example, before 1991, the Indian economic system was of the type of a mixed economy with pronounced orientation towards the public sector. Prior to 1991 private sector's role in India's mixed economy was greatly restricted. Many industries were reserved exclusively for investment and production by the public sector.

Private sector operations were limited mainly to the consumer goods industries. Even in these goods the private sector production and operation was controlled by industrial licensing system, Monopolistic and Restrictive Trade Practices (MRTP) Commission. The private sector was also subjected to various export and import-restrictions. High tariffs were imposed to protect domestic industries and to pursue import substitution strategy of industrial growth.

Now, there have been significant changes in the economic policies since 1991 which have changed the macroeconomic environment for private sector firms. Far-reaching structural economic reforms were carried out by Dr. Manmohan singh during the period 1991-96 when he was the Finance Minister. Industrial licensing has been abolished and private sector can now invest and produce many industrial products without getting license from the government.

Many industries, except only a few industries of strategic importance, which were earlier reserved for the public sector have been thrown open for the private sector. Import duties have been greatly reduced due to which domestic industries face competition from the imported products. Incentives have been given to boost exports. Rupee has been made convertible into foreign currencies on current account. It is thus evident that new economic reforms carried out since 1991 has significantly changed the business environment.

2. Social Environment:

Members of a society wield important influence over business firms. People these days do not accept the activities of business firms without question. Activities of business firms may harm the physical environment and impose heavy social costs. Besides, business practices may violate cultural ethos of a society. For example, advertisement by business firms may be nasty and hurt the ethical sentiments of the people.

Businesses should consider the social implications of their decisions. This means that companies must seriously consider the impact of its actions on the society. When a business firm in their decision making take care of social interests, it is said to be socially responsible.

Social responsibility is the felt obligation or self-enforced duty of business firms to serve or protect social interests. By doing so they promote social well-being. Good corporate governance should be judged not only by the productivity and profits earned by a business firm but also by its social-welfare promoting activities.

It is worth noting that in modern management science a new concept of social responsiveness has been developed. By social responsiveness we mean “the ability of a corporate firm to relate its operations and policies to social environment in way that are mutually beneficial to the company and society at large".

It may be noted that social responsibility or social responsiveness is related to ethics. The discipline of ethics deals with what is good and bad, or right and wrong or with moral duty and obligation. Further, even if managers enjoy full freedom to adopt actions and policies in accordance with the conceived notion of social responsibility, they may not do so if standards applied to evaluate their performance are quite different.

Every manager would like its performance to be positively appraised. Therefore, if the performance of managers of business firms are judged by the amount of profits .they make for the owners of the firms, it is then not proper to expect socially responsible actions from them.

3. Political and Legal Environment:

Businesses are closely related to the government. The political philosophy of the government wields a great influence over business policies. For example, after independence under the leadership of Jawahar Lal Nehru India adopted 'democratic socialism as its goal.

In the economic sphere it implied that public sector was to play a vital role in India's economic development. Besides, it required that working of the private sector were to be controlled by a suitable industrial policy of the government. In this political framework provide business firms worked under various types of regulatory policies which sought to influence the directions in which private business enterprises had to function.

Thus, Industrial Regulation Act 1951, Industrial Policy Resolution 1956, Foreign Exchange Regulation Act (FERA), Monopolistic and Restrictive Practices (MRTP) Act were passed to control the business activities of the private sector. Besides, role of foreign direct investment was restricted to only few spheres.

However, since 1991 several structural economic reforms have been undertaken following a change in political philosophy in favour of a free market economy. The collapse of socialism in Soviet Russia, China and East European Countries has brought about a change in political thinking about the roles of public and private sectors in India's industrial development.

To encourage the growth of the private sector in India, licensing has now been abolished, role of public sector greatly reduced and foreign capital, both direct and portfolio, is being encouraged to raise the rate of capital formation in the Indian economy. FERA has been replaced by FEM A (Foreign Exchange Management Act) It is evident from above that with the change in the nature of political philosophy business environment for private firms has greatly changed.

4. Technological Environment:

The nature of technology used for production of goods and services is an important factor responsible for the success of a business firm. Technology consists of the type of machines and processes available for use by a firm and the way of doing things. The improvement in technology raises total factor productivity of a firm and reduces unit cost of output.

The use of a superior technology by a firm gives it a competitive advantage over its rival firms. The use of a particular technology by a firm for its transformation process determines its competitive strength. In this age of globalisation the firms have to compete in the international markets for sales of their products. The firms which use outdated technologies cannot compete globally. Therefore, technological development plays a vital role in enhancing the competitive strength of business firms.

It has been generally observed that the competition between firms in the domestic economy and in international markets ensures that the firms will try to improve the technology they use because failure to do so would pose a threat to their survival. In the protected markets, technological improvements are slow and firms are able to survive for a long period without making technological changes.

This is quite evident from the experience of automobile industry in India. Manufacturers of Ambassadors and Fiat Cars not only made no significant changes in their models, but also did not make any improvement in technology for decades because of absence of competition. The users had no choice and Ambassador and Fiat cars survived for decades in the protected environment.

It is when Maruti Udyog Ltd. was started in India using superior technology and introducing more attractive models that there has been a significant improvement in car manufacturing. With liberalisation of the Indian economy new car manufacturing firms have entered the industry and are producing different verities and models of cars with improved technology.

Besides, the cotton textile industry is another important example of an industry which due to protection provided to it by imposing high tariffs on imports of cotton textiles became sick. Following trade liberalisation many cotton textile firms have closed down because they could not withstand competition. Technological environment affects the success of firms and the need for technological advancement cannot be ignored.

5. Demographic Environment:

Demographic environment includes the size and growth of population, life expectancy of the people, rural-urban distribution of population, the technological skills and educational levels of labour force. All these demographic features have an important bearing on the functioning of business firms. Since new workers are recruited from outside the firm, demographic factors are considered as parts of external environment.

The skills and ability of a firm's workers determine to a large extent how well the organisation can achieve its mission. The labour force in a country is always changing. This will cause changes in the work force of a firm. The business firms have to adjust to the requirements of their employees. They have also to adapt themselves to their child care services, labour welfare programmes etc.

The demographic environment affects both the supply and demand sides of business organisations. Firms obtain their working force from the outside labour force. The technical and education skills of the workers of a firm are determined mostly by human resources available in the economy which are a part of demographic environment.

On the other hand, the size of population and its rural-urban distribution determine the demand for the products of industrial firms. For example, when there is good monsoon in India causing increase in incomes of rural population dependent on agriculture, demand for industrial products greatly increases.

In the wake of economic reforms initiated in the early nineties when foreign investors were allowed to make investment in India, they were prompted to invest in India by pointing out that the size of Indian market was quite large. They were told that 200 million Indian people could afford to buy the industrial products and this constituted quite a large market which could be profitably exploited.

Besides, the growth rate of population and age composition of population determine the demand pattern of goods. When the population of a country is growing at a high rate, its child population will be relatively large. This means demand for products such as baby food which cater to the needs of children will be relatively high.

On the other hand, if population of a country is stable and life expectancy of the people is high, this will cause greater proportion of elderly aged people in the population of a country. This means different demand pattern of goods. Thus business firms have to consider all these demographic factors in their planning for production of goods and services and formulation of marketing strategies for sale of their products.

Demographic environment is also important for business firms as it determines the choice of technology by them. Other things being equal, if labour is abundant and relatively cheaper than capital, business firms will prefer relatively labour-intensive techniques for production of goods.

However, for various reasons such as rigid labour laws and low productivity of labour, various tax concessions on investment in capital equipment and machinery, business firms in India are generally seem to be using capital-intensive technologies imported from abroad. This has resulted in the increase in unemployment of labour, especially among the young workers.

Therefore, social and government pressure is increasing on the business firms to create more employment opportunities for labour so as to render help in solving the problem of unemployment. It is quite interesting to note here that to take advantages of relatively cheap labour in India and China that foreign MNCs are setting up manufacturing plants in these countries. It is evident from above that demographic factors play a crucial role in determining the productive activity of business firms.

6. Natural Environment:

Natural environment is the ultimate source of many inputs such as raw materials, energy which business firms use in their productive activity. In fact, availability of natural resources in a region or country is a basic factor in determining business activity in it. Natural environment which includes geographical and ecological factors such as minerals and oil reserves, water and forest resources, weather and climatic conditions, port facilities are all highly significant for various business activities.

For example, the availability of minerals such as iron, coal etc. in a region influence the location of certain industries in that region. Thus, the industries with high material contents tend to be located near the raw material sources. For example, steel producing industrial units are set up near coal mines to save cost of transporting coal to distant locations.

Besides, certain weather and climatic conditions also affect the location of certain business units. For example, in India the firms producing cotton textiles are mostly located in Bombay, Madras, and West Bengal where weather and climatic conditions are conducive to the production of cotton textiles.

Natural environment also affects the demand for goods. For example, in regions where there is high temperature in summer there is a good deal of demand for dessert coolers, air conditioners, business firms set up industrial units producing these products. Similarly, weather and climatic conditions influence the demand pattern for clothing, building materials for housing etc. Furthermore, weather and climatic conditions require changes in design of products, the type of packaging and storage facilities.

It may however be noted that resource availability is not a sufficient condition for the growth of production and business activities. For instance, India through rich in natural resources remained poor and underdeveloped because available resources had not been put to use due to lack of adequate capabilities of Indian business class. Thus, it is not the availability of natural resources alone but also the technology and ability to being them into use that determines the growth of business and the economy.

Difference between macro and micro environment

Micro environment refers to the environment which is in direct contact with the business organization and can affect the routine activities of business straight away. It is associated with a small area in which the firm functions. It is also known by the name Internal Environment or Task Environment.

Micro environment is a collection of all the forces that are close to the firm. These forces are very particular for the said business only. They can influence the performance and day to day operations of the company, but for a short term only. Its elements include suppliers, competitors, marketing intermediaries, customers and the firm itself.

- Suppliers are the ones who provide inputs to the business like raw material, equipment and so on.
- Competitors are the rivals, which compete with the firm in the market and resources as well.
- Marketing intermediaries may include wholesalers, distributors, and retailers that make a link between the firm and the customers.
- Customers / Consumers are the ones who purchase the goods for their own consumption. They are considered as the king of business.
- The firm itself is an aggregate of a number of elements like owners like shareholders or investors, employees and the board of directors.

The general environment within the economy that influences the working, performance, decision making and strategy of all business groups at the same time is known as Macro Environment. It is dynamic in nature. Therefore it keeps on changing.

It constitutes those outside forces that are not under the control of the firm but have a powerful impact on the firm's functioning. That is why, it is also termed as an external environment which consists of individuals, groups, organizations, agencies and others with which the firm deals during the course of its business.

The study of Macro Environment is known as PESTLE Analysis. PESTLE stands for the variables that exist in the environment, i.e. Population & Demographic, Economic, Socio-Cultural, Technological, Legal & Political and Environmental. These variables, consider both economic and non-economic factors like social concerns, government policies, family structure, population size, inflation, GDP aspects, income distribution, ethnic mix, political stability, taxes, and duties, etc.

Unit-2 POLITICAL ENVIRONMENT OF BUSINESS

Introduction

The Political environment includes all laws, government agencies that influence an organization. Political environment can affect a business either positively or negatively depending on the prevailing situation in a particular country. Generally political environment includes:

- Political-legal institutions
- The form of government
- The ideology of the ruling party
- The strength of opposition
- Role and responsibility of bureaucracy

These factors influence the business in an enormous amount. The political system prevailing in a country decides, promotes, encourages, directs and controls the business activities of that country. A country requires a honest, stable, efficient and dynamic political system for its economic growth.

These are explained as:

POLITICAL-LEGAL INSTITUTIONS:

India is a democratic country. In india, there are three types of political institutions namely legislative, executive and judiciary.

-Legislative

Of the three, the legislature is the most powerful political institution with boost powers such as law-making, budget, Policy making, Budget approving, Executive control, etc.

The impact of Legislature on Business is very influencing. It decides that what business activities should be carried out in a country, Who should own them, what should happen to their earnings and various other factors.

-Executive:

It is also known as Government institution. Government is the central authority that has the power to regulate the business and control its operations. This institution defines the boundaries of a business unit. Executive Institutions aims at Directing and controlling of Business activities.

Executive Environment involves Responsibility of Business to Government and The responsibility of Government to The Business.

-Judiciary:

Judiciary provides the business, a manner in which the work of the Business has to be fulfilled. The judiciary in India is influenced by its political system. The

Government of India defines the legal framework within which firms do their respective business.

Indian Judiciary has mainly two powers:

- The authority of the courts to settle legal disputes.
- The authority of the courts to rule on the constitutionality of legislation.

Government is a very powerful institution which can create a favorable business environment. Governments create the rules and frameworks in which businesses are able to compete against each other. From time to time the government will change these rules and frameworks forcing businesses to change the way they operate. Business is thus keenly affected by government policy

Why government controls business activities?

Businesses are usually profit motivated. Many times in order to gain more profit the business might neglect issues like environmental protection and production of harmful and dangerous products.

Large business might take the advantage of their size and exploit consumers, employees and even use unfair tactics to overcome competition from small businesses.

Business might use media to portray a wrong image of their product or may even mislead customers to buy products.

How government controls business activity?

Governments control the business activities is many ways both direct and indirect. We have already covered government's economic policies. However, government can control business activities in a more direct way. These are as follows:

Controlling what to produce

In order to safeguard the interest of the community government may ban or limit the production of certain goods and services. For example, selling of guns, explosive and dangerous drugs are illegal in many countries. Moreover, Goods which harm the environment are also totally banned or strictly controlled in many countries, e.g. aerosol cans that use CFCs which has been banned because of their damaging effect on the ozone layer.

Employees Protection legislations

Government may pass laws to protect the interest of employees such as Laws against unfair discrimination at work. When applying for jobs. There is no unfair discrimination on the basis of Race, religion, sex, age, or color.

Legislations for health and Safety at work:

- To protect workers from dangerous machinery.
- Workers should be provided with proper safety equipments and clothing.
- A reasonable workforce temperature is maintained for workers.
- Proper hygienic conditions and washing facilities are provided.
- Workers get adequate breaks between shifts.
- Protect employees against unfair dismissal

Business cannot dismiss the workers because they have joined a trade union or for being pregnant. There should be proper warning before dismissing a workerothe rwise it will be treated as unfair dismissal.

Ensure fair wages for the employees

In many countries, government makes it mandatory to have a written contract of employment. It contains the details of the wage rate; working hours, deductions and other necessary details regarding working conditions. Minimum wages paid to different types of workers are also determined by the government.

Consumer Protection legislations

Most of the countries have consumer protection laws aimed at making sure that businesses act fairly towards their consumers: A few examples are

- **Weight and Measures Act:** goods sold should not be underweight. Standard weighting equipments should be used to measure goods.
- **Trade Description Act:** deliberately giving misleading impression about the product is illegal.
- **Consumer Credit Act:**
  According to this act consumers should be given a copy of the credit agreement and should be aware of the interest rates, length of loan while taking a loan.
- **Sale of Goods Act:**
  It is illegal to sell products with serious flaws or problems and goods sold should conform to the description provided.

- **Environment protection**
  In the recent years government across the globe have passes legislations to control business activities from harming the environment. This includes settin g limits tothe pollution, making it mandatory for businesses to treat their wastes etc.
- **Location decisions**
  Government often influences location of business through planning controls involve restricting the business activities that can be undertaken in certain areas.
  Provide regional assistance to businesses which involves encouraging them to locate in underdeveloped regions of the country.

The Role of Indian Government in Shaping Business Environment:

1. **Government: Regulator of Business:**

The entire regulatory legislations and policies stand covered under this segment. On the one hand, there is a very large indirect area of government control over the functioning of private sector business through budgetary and monetary policies. But against this there is also a fast expanding area of direct administrative or physical controls through which the government seeks to ensure that private investment and production in industry and the use of scarce resources conform to government's basic socio-economic objectives. They have become necessary tools in a system which seeks to avoid total nationalization of resources.

Government's regulatory functions with regard to trade, business and industry aim at laying down the limits for the private enterprise. The regulatory functions of the Government include:

- Restraints on private activities,
- Control of monopoly and big business,
- Development of public enterprises as an alternative to private enterprises to ensure competitive dualism,
- Maintenance of a proper socio-economic infrastructure.

2. Government: Promoter of Business:

The promotional role of the government in relation to industries can be seen as providing finance to industry, in granting various incentives and in creatinginfras tructure facilities for industrial growth and investment. For example, our government has identified certain backward areas as „No Industry Districts". To promote development of such areas, Government provides subsidies and tax holiday to attract investment in backward areas. In this way the government will help the process of balanced development and thereby remove regional disparities. The government is assisting the development of small scale industries. The District Industrial Centres are assisting the development of small industries. The government is actively helping the industrial development of the country by providing finance to them through the development banks.

3. **Government as an Entrepreneur:**

The impressive growth of the public sector in India from a small beginning bears testimony to the role of the government as an entrepreneur.

Private investors are solely guided by private profit motive and hence they are not interested in developing products of common public use and social services which yield relatively lower returns. But as a "social entrepreneur" the government does not hesitate to take them up.

4. **Government as the Planner:**

In its role as a planner, the government indicates various priorities in the Five Year Plans and also the spectral allocation of resources. Mixed economies are democratically planned economies. The government tries to manage the economy and its business activities through the exercise of planning. Planning is the most important activity in a modern mixed economy. The idea of economic planning can be traced to three different sources: Rationalism, Socialism and Nationalism. Economists advocate a planned economy on the ground that it can be a rational economy which can utilize the available resources in an optimal manner. In other words, the planned economy is a rational economy which attempts to secure the maximum return with minimum wastage of productive resources. The socialists advocate a planned economy because it helps to achieve some desirable social ends like economic equality. An unplanned economy, left to it, is incapable of attaining the social ends. The nationalists advocate a planned economy because a planned economy is a powerful economy. Planning operation involves a number of steps. The first stage in planning is the formulation of socio-economic objectives of the plan and their definition in quantitative terms. Such objectives include growth, justice, eradication of poverty, price stability etc. In the second stage, the plan lays down the physical and financial targets. The third stage is concerned with execution. The

Planning Commission is only an advisory body and it has no power to execute the plan

Legal framework in India

This refers to set of laws, regulations, which influence the business organisations and their operations. Every business organisation has to obey, and work within the framework of the law. The important legislations that concern the business enterprises include:

- **(i) Companies Act, 1956**
- **(ii) Foreign Exchange Management Act, 1999**
- **(iii) The Factories Act, 1948**
- **(iv) Industrial Disputes Act, 1972**
- **(v) Payment of Gratuity Act, 1972 (vi) Industries (Development and Regulation) Act, 1951**
- **(vi) Prevention of Food Adulteration Act, 1954**
- **(vii) Essential Commodities Act, 2002**
- **(viii) The Standards of Weights and Measures Act, 1956**
- **(ix) Monopolies and Restrictive Trade Practices Act, 1969**
- **(x) Trade Marks Act, 1999**
- **(xi) Bureau of Indian Standards Act, 1986**
- **(xii) Consumer Protection Act, 1986**
- **(xiii) Environment Protection Act**
- **(xiv) Competition Act, 2002**

Besides, the above legislations, the following are also form part of the legal environment of business.

- Provisions of the Constitution: The provisions of the Articles of the Indian Constitution, particularly directive principles, rights and duties of citizens, legislative powers of the central and state government also influence the operation of business enterprises.
- Judicial Decisions: The judiciary has to ensure that the legislature and the government function in the interest of the public and act within the boundaries of the constitution. The various judgments given by the court in different matters relating to trade and industry also influence the business activities.

Economic environment- economic system and economic policies

Economic Environment in India

In order to solve economic problems of our country, the government took several steps including control by the State of certain industries, central planning and reduced importance of the private sector. The main objectives of India's development plans were:

1. Initiate rapid economic growth to raise the standard of living, reduce unemployment and poverty;
2. Become self-reliant and set up a strong industrial base with emphasis on heavy and basic industries
3. Reduce inequalities of income and wealth;
4. Adopt a socialist pattern of development — based on equality and prevent exploitation of man by man.

As a part of economic reforms, the Government of India announced a new industrial policy in July 1991.

The broad features of this policy were as follows:

1. The Government reduced the number of industries under compulsory licensing to six.
2. Disinvestment was carried out in case of many public sector industrial enterprises.
3. Policy towards foreign capital was liberalized. The share of foreign equity participation was increased and in many activities 100 per cent Foreign Direct Investment (FDI) was permitted.
4. Automatic permission was now granted for technology agreements with foreign companies.
5. Foreign Investment Promotion Board (FIPB) was set up to promote and channelise foreign investment in India

Liberalization:

· The economic reforms that were introduced were aimed at liberalizing the Indian business and industry from all unnecessary controls and restrictions.

·They indicate the end of the licence-pemit-quota raj.

·Liberalization of the Indian industry has taken place with respect to:

1. Abolishing licensing requirement in most of the industries except a short list,

2. Freedom in deciding the scale of business activities i.e., no restrictions on expansion or contraction of business activities,
3.Removal of restrictions on the movement of goods and services,
4.Freedom in fixing the prices of goods services
5. Reduction in tax rates and lifting of unnecessary controls over the economy,
6. Simplifying procedures for imports and experts, and
7. Making it easier to attract foreign capital and technology to India.

Privatization:

· The new set of economic reforms aimed at giving greater role to the private sector in the nation building process and a reduced role to the public sector.
· To achieve this, the government redefined the role of the public sector in the New Industrial Policy of 1991
· The purpose of the sale, according to the government, was mainly to improve financial discipline and facilitate modernization.
· It was also observe that private capital and managerial capabilities could be effectively utilized to improve the performance of the PSUs.
· The government has also made attempts to improve the efficiency of PSUs by giving them autonomy in taking managerial decisions.

Globalization:

· Globalizations are the outcome of the policies of liberalisation and privatisation.
· Globalisation is generally understood to mean integration of the economy of the country with the world economy, it is a complex phenomenon.
· It is an outcome of the set of various policies that are aimed at transforming the world towards greater interdependence and integration.
· It involves creation of networks and activities transcending economic, social and geographical boundaries.
· Globalisation involves an increased level of interaction and interdependence among the various nations of the global economy.
· Physical geographical gap or political boundaries no longer remain barriers for a business enterprise to serve a customer in a distant geographical market.

Impact of Government Policy Changes on Business and Industry

1. Increasing competition: As a result of changes in the rules of industrial licensing and entry of foreign firms, competition for Indian firms has increased especially in service industries like telecommunications, airlines, banking, insurance, etc. which were earlier in the public sector.

2. More demanding customers: Customers today have become more demanding because they are well-informed. Increased competition in the market gives the customers wider choice in purchasing better quality of goods and services.

3. Rapidly changing technological environment: Increased competition forces the firms to develop new ways to survive and grow in the market. New technologies make it possible to improve machines, process, products and services. The rapidly changing technological environment creates tough challenges before smaller firms.

4. Necessity for change: In a regulated environment of pre-1991 era, the firms could have relatively stable policies and practices. After 1991, the market forces have become turbulent as a result of which the enterprises have to continuously modify their operations.

5. Threat from MNC Massive entry of multi nationals in Indian marker constitutes new challenge. The Indian subsidiaries of multi-nationals gained strategic advantage. Many of these companies could get limited support in technology from their foreign partners due to restrictions in ownerships. Once these restrictions have been limited to reasonable levels, there is increased technology transfer from the foreign partners

Concept of Capitalism, Socialism and Mixed Economy

Some of the salient features of an economy are as follows:

1. Economic institutions are man made. Thus an economy is what we make it.

2. Economic institutions can be created, destroyed, replaced or changed. For example the capitalism was replaced by communism in 1917 in USSR and the communism was destroyed in 1989 through a series of economic reforms by former USSR. In India after independence in 1947 through economic and social reforms we abolished Zamindari system and introduced many land reform.

3. Levels of economic activities keep on changing.

4. Producers and consumers are the same persons. Thus they have a dual role. As producers they work and produce certain goods and services and consume the same as consumers.

5. Production, consumption and investment are the vital processes of an economy.

6. In modern complex economies we use money as a medium, of exchange.

7. Now-a-days the government intervention in the economy is considered undesirable and the preference for free functioning of prices and market forces is increasing in all types of economic system.

Types of Economies: On the Basis of Ownership and Control over Means of Production or Resources

Resources or means of production remain either in private ownership with full individual freedom to use them for the profit motive or they can be in collective ownership (government control) and can be used for the collective welfare of the society as a whole. Based on the criterion of degree of individual freedom and profit motive, economies are labelled as:

(A) Capitalist or free enterprise economy

(B) Socialist or centrally planned economy

(C) Mixed economy

(A) Capitalist Economy

The capitalist or free enterprise economy is the oldest form of economy. Earlier economists supported the policy of 'laissez fair' meaning leave free. They advocated minimum government intervention in the economic activities. The following are the main features of a capitalist economy;

(i) **Private property** In a capitalism system all the individuals have the right to own property. An individual can acquire property and use it for the benefit of his own family. There is no restriction on the ownership of land, machines, mines, factories and to earn profit and accumulate wealth. After the death of a person the property or wealth is transferred to the legal heirs. Thus the institution of private property is sustained over time by the right of inheritance.

(ii) **Freedom of enterprise** In a capitalist economy the government does not coordinate production decisions of the citizens. Individuals are free to choose any occupation. Freedom of enterprise implies that business firms are free to acquire resources and use them in the production of any good or service. The firms are also free to sell their product in the markets of their choice. A worker is free to choose his/her employer. In small business units owner himself takes the risk of production and earns profit or loss for himself. But in modern corporations the shareholders take risks whereas paid directors manage business. Thus the individual supervision of one's own capital is now no longer required to earn profit. Government or any other agency does not impose restrictions/obstacles in the way of workers to enter or leave a particular industry. A worker chooses that occupation where his income is maximum.

(iii) **Consumer's Sovereignty** In capitalist economy consumers are like a king. They have the full freedom to spend their income on goods and services that give them maximum satisfaction. In capitalist system production is guided by consumer's choices. This freedom of consumers is called consumer's sovereignty.

(iv) **Profit Motive** Self-interest is the guiding principle in capitalism. Entrepreneurs know that they will own the profit or loss after the payment to all other factors of production. Therefore they are always motivated to maximize their residual profit by minimizing cost and maximizing revenue. This makes the capitalist economy an efficient and self-regulated economy.

(v) **Competition** There are no restrictions on the entry and exit of firms in a capitalism system. The large number of producers are available to supply a particular good or service and therefore no firm can earn more than normal profit. Competition is the fundamental feature of capitalist economy and essential to safeguard against consumer's exploitation. Although due to large-size and product distinction monopolistic tendencies have grown these days still the competition can be seen among a large number of firms.

(vi) **Importance of markets and prices** The important features of capitalism like private property, freedom of choice, profit motive and competition make a room for free and efficient functioning of price mechanism. Capitalism is essentially a market economy where every commodity has a price. The forces of demand and supply in an industry determine this price. Firms which are able to adjust at a given price earn normal profit and those who fail to do so often quit the industry. A producer will produce those goods, which give him more profit.

(vii) **Absence of government interference** In a free enterprise or capitalist economy the price system plays an important role of coordinating agent. Government intervention and support is not required. The role of government is to help in free and efficient functioning of the markets. Capitalism in today's world Pure capitalism is not seen in the world now-a-days. The economies of USA, UK, France, Netherland, Spain, Portugal, Australia ect. are known as capitalistic countries with active role of their respective government in economic development.

(B) **Socialist Economy**

In the socialist or centrally planned economies all the productive resources are owned and controlled by the government in the overall interest of the society. A central planning authority takes the decisions. The socialist economy has the following main features.

(i) **Collective Ownership of means of Production** In a Socialist economy means of production are owned by the government on behalf of the people. The institution of private property is abolished and no individual is allowed to own any production unit and accumulate wealth and transfer it to their heirs. However, people may own some durable consumer goods for their personal use.

(ii) **Social Welfare Objective** The decisions are taken by the government at macro level with the objective of maximization of social welfare in mind rather than maximization of individual profit. The forces of demand and supply do not play any important role. Careful decisions are taken with the welfare objectives in mind.

(iii) **Central Planning** Economic planning is an essential feature of a socialist economy. The Central Planning Authority keeping the national priorities and availability of resources in mind allocates resources. Government takes all economic decisions regarding production, consumption and investment keeping in mind the present and future needs. The planning authorities fix targets for various sectors and ensure efficient utilization of resources.

(iv) **Reduction in Inequalities** The institutions of private property and inheritance are at the root of inequalities of income and wealth in a capitalist economy. By abolishing these twin institutions a socialist economic system is able to reduce the inequalities of incomes. It is important to note that perfect equality in income and wealth is neither desirable nor practicable.

(v) **No class conflict** In capitalist economy the interests of the workers and management are different. Both of them want to maximize their own individual profit or earnings. This results in class conflict in capitalist economy. In socialism there is no competition among classes. Every person is a worker so there is no class conflict. All are co-workers. Socialism in today's world Countries such as Russia, China and many eastern European countries are said to be socialist countries. But they are changing now and encouraging liberalisation in their countries for their economic development.

(C) **Mixed Economy**

A mixed economy combines the best features of capitalism and socialism. Thus mixed economy has some elements of both free enterprise or capitalist economy as well as a government controlled socialist economy. The public and private sectors co-exist in mixed economies. The main characteristics of a mixed economy are as follows:

(i) **Co-existence of public and private sectors**. The private sector consists of production units that are owned privately and work on the basis of profit motive. The public sector consists of production units owned by the government and works on the basis of social welfare. The areas of economic activities of each sector are generally demarcated. Government uses its various policies e.g. licensing policy, taxation policy, price policy, monetary policy and fiscal policy to control and regulate the private sector.

(ii) **Individual Freedom** Individuals take up economic activities to maximize their personal income. They are free to choose any occupation and consume as per their choice. But producers are not given the freedom to exploit consumers and labourers. Government puts some restrictions keeping in mind the welfare of the people. For instance, government may put restrictions on the production and consumption of harmful goods. But within rules, regulations and restrictions imposed by the government, for the welfare of the society the private sector enjoys complete freedom.

(iii) **Economic Planning** The government prepares long-term plans and decides the roles to be played by the private and public sectors in the development of the economy. The public sector is under direct control of the government as such production targets and plans are formulated for them directly. The private sector is provided encouragement, incentives, support and subsidies to work as per national priorities.

(iv) **Price Mechanism** Prices play a significant role in the allocation of resources. For some sectors the policy of administered prices is adopted. Government also provides price subsidies to help the target group. The aim of the government is to maximize the welfare of the masses. For those who can not afford to purchase the goods at market prices, government makes the goods available either free of cost or at below market (subsidized) prices.

Thus in a mixed economy people at large enjoy individual freedom and government support to protect the interests of weaker sections of the society. Indian economy is considered a mixed economy as it has well defined areas for functioning of public and private sectors and economic planning. Even countries such as USA, UK, etc. which were known as capitalistic countries are also called mixed economies now because of active role of their government in economic development.

Impact of business on Private sector, Public sector and Joint sector

Before independence, due to the imperialistic policies of the British Government, India's status in the field of industry was negligible. Barring a few industries (textile Industry, cement and steel plants) there was little to mentioning the industrial felt. It was realized that in order to have highest rate development in the shortest possible time, State intervention in the Economic process would be inevitable. Expansion of public sector in industry, trade and service is one of the major forms of state intervention. Public sector was to accelerator of Economic development, the usherer of socialistic pattern of society, the champion of social justice and industrial democracy.

Objective of Public Sector: The broad objectives of public sector are as follows :

(i) To gain control of the commanding heights of the economy.
(ii) To provide commercial surpluses to Economic development.
(iii) To promote rapid Economic development by filling critical gaps in the industrial structure.
(iv) To provide basic infrastructural facilities.
(v) To ensure balanced regional development and dispersal of Economic activity.
(vi) To reduce sharp disparities of income and prevent concentration of Economic poser in few hands.
(vii) To effect social control and regulation of long-term finances through public financial institutions.
(viii) To achieve self-reliance critical areas.
(ix) To create employment opportunities on an increasing scale.
(x) To help improve foreign exchange earnings.

The Private Sector in India – The Private Sector is broadly given the right to develop consumer goods industries. It embraces the whole of agriculture and allied activities, plantations, mining, internal trade, both retail and wholesale, road freight traffic etc. In the planning era, the Govt. of India has setup a network of development banking and financial institutions to finance and support the private sector. In this category we can mention the NABARD, the Industrial Finance Corporation (IFCI), the State Financial Corporation, the Industrial Credit and Investment Corporation of India (ICICI), the Industrial Development Bank (lDBI), the EXIM Bank etc.

These institutions have stimulated development of new industrial activities, new centres of industry and new entrepreneurs. The govt. has liberalized considerably the control-regulatory apparatus under which the private sector has been function for so long. Agriculture, dairying, animal husbandry, poultry etc. completely managed by private enterprise contributes 25% of the domestic GNPand provides employment nearly 60% of working population in 2000-01. But, under the conditions of scarcity, the private businessmen have the tendency to resort to hoarding and exploitation of the consumers. So, the govt. has to control and regulate on price, on the movement of goods between regions, on storage etc.

Small and cottage industries in India are in the private sector and they have an important role to play in industrial development.

Joint Sector It represents a new ideology of industrial management. The concept of the joint sector is a compromise between the alternatives of total nationalization and free enterprise economy. The Industrial Licensing Policy Inquiry Committee popularly known as Dutt Committee (1969) recommended the creating of the joint sector on the basis of the Industrial Policy Resolution of 1956. The Joint sector is a form of partnership between the private sector and the Government and its ownership and control are effectively shared between public sector agencies ownership and control are effectively shared between public sector agencies on the one hand and a private group on the other. The Dutt Committee (1969) envisaged the concept of joint sector as an important means of curbing the increasing concentration of Economic power. the Committee confined the joint sector to the core sector only. Thus, today, the concept of joint sector refers to an 'new undertaking' in which the State also holds the equity and controls the management of the company along with the private collaborator.

Broadly speaking joint sector enterprises may be brought into being through anyone of the following ways:

(a) The Central Government through any of the administrative ministries may set up new companies jointly with private partners involving substantial equity participation by both partners.
(b) The State Government or their Industrial Development Corporations may set up new enterprises Jointly with private partners involving equity participation by both parties.
(c) Public financial institutions may through equity participation or conversion of debt into equity transform enterprises promoted by private entrepreneurs into joint sector companies.
(d) The existing public sector companies may be transformed into joint sector enterprises through the sale of equity shares to private entrepreneurs or to the general public.
Role of the Joint Sector: The rationale for the development of joint sector projects is as follows:

(a) **Curbing the concentration of Economic power** - Government participation in the ownership and management of enterprises jointly with the private entrepreneurs could be an effective means for controlling monopoly, concentration of Economic power and business malpractices.

(b) **Social control over Industry** - Joint sector is a tool for social control over industry, without resort to outright nationalisation. Joint sector can be used to promote socio-Economic objectives of the Government such as maintenance of reasonable prices, regional dispersal of industries investment in research to improve further technological capabilities development of exports, etc.

(c) **Acceleration of Industrial/Growth** - By providing public support and patronage, the joint sector may encourage small and medium entrepreneurs, help them to mobilise resources to procure machinery and equipment and build up confidence to face the uncertainties of modern business this is the only way to ensure that medium sized public sector companies contribute increasingly to industrial growth.

(d) **Balanced Regional Development -** By a process of spreading projects to different regions with due regard to the resources endowment pattern and with linkages and spread effect, joint Sector projects have been expected to promote a balanced development of the various regions in a State.

(e) **Mobilization of, Resources** - The State investment in joint sector projects encourage the private entrepreneurs as well as local and other institutional savers to invest and thus mobilize local savings of a sizable magnitude.

(f) **Broad-basing Entrepreneurship** - If the joint sector enterprises are permitted into a wide range of industries, many small entrepreneurs will be able to come forward and take advantage of Government support and facilitating role.

(g**) State-sponsored industrialisation** - The joint sector may be regarded as a part of the strategy of State sponsored industrialisation.

(h) **Extension of public control** - The joint sector will enable the Government to enter the highly profitable lines of industrial activity, reduce the dominant Economic power of the large industrial houses.

(i) **Alternative to public and private sectors** - The main advantage of the joint sector is that it combines the favorable points found in the public as well as the private sector and seeks to eliminate the negative points in both.

MRTP

The Monopolistic and Restrictive Trade Practices Act, 1969, was enacted

1. To ensure that the operation of the economic system does not result in the concentration of economic power in hands of few,
2. To provide for the control of monopolies, and
3. To prohibit monopolistic and restrictive trade practices.

The MRTP Act extends to the whole of India except Jammu and Kashmir.

Unless the Central Government otherwise directs, this act **shall not** apply to:

1. Any undertaking owned or controlled by the Government Company,
2. Any undertaking owned or controlled by the Government,
3. Any undertaking owned or controlled by a corporation (not being a company established by or under any Central, Provincial or State Act,
4. Any trade union or other association of workmen or employees formed for their own reasonable protection as such workmen or employees,
5. Any undertaking engaged in an industry, the management of which has been taken over by any person or body of persons under powers by the Central Government,
6. Any undertaking owned by a co-operative society formed and registered under any Central, Provincial or state Act,
7. Any financial institution.

Restrictive Trade Practice

A restrictive trade practice is a trade practice, which

1. Prevents, distorts or restricts **competition** in any manner; or
2. **Obstructs** the flow of capital or resources into the stream of production; or
3. Which tends to bring about **manipulation of prices or conditions** of delivery or affected the flow of supplies in the market of any goods or services, imposing on the consumers unjustified cost or restrictions.

INQUIRY INTO RESTRICTIVE PRACTICES

The Commission may inquire into any restrictive trade practice

1. Upon receiving a complaint from any trade association, consumer or a registered consumer association, or
2. Upon a reference made to it by the Central or State Government or
3. Upon its own knowledge or information

FEMA

The **Foreign Exchange Management Act, 1999** (FEMA) is an Act of the Parliament of India "to consolidate and amend the law relating to foreign exchange with the objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in India". It was passed in the winter session of Parliament in 1999, replacing the Foreign Exchange Regulation Act (FERA). This act makes offences related to foreign exchange civil offenses. It extends to the whole of India., replacing FERA, which had become incompatible with the pro-liberalisation policies of the Government of India. It enabled a new foreign exchange management regime consistent with the emerging framework of the World Trade Organisation (WTO). It also paved the way for the introduction of the Prevention of Money Laundering Act, 2002, which came into effect from 1 July 2005.

Unlike other laws where everything is permitted unless specifically prohibited, under the Foreign Exchange Regulation Act (FERA) of 1973 (predecessor to FEMA) everything was prohibited unless specifically permitted. Hence the tenor and tone of the Act was very drastic. It required imprisonment even for minor offences. Under FERA, a person was presumed guilty unless he proved himself innocent, whereas under other laws a person is presumed innocent unless he is proven guilty.

FEMA is a regulatory mechanism that enables the Reserve Bank of India to pass regulations and the Central Government to pass rules relating to foreign exchange in tune with the Foreign Trade policy of India.

Main Features

- Activities such as payments made to any person outside India or receipts from them, along with the deals in foreign exchange and foreign security is restricted. It is FEMA that gives the central government the power to impose the restrictions.
- Without general or specific permission of the MA restricts the transactions involving foreign exchange or foreign security and payments from outside the country to India – the transactions should be made only through an authorised person.
- Deals in foreign exchange under the current account by an authorised person can be restricted by the Central Government, based on public interest generally.
- Although selling or drawing of foreign exchange is done through an authorized person, the RBI is empowered by this Act to subject the capital account transactions to a number of restrictions.
- Residents of India will be permitted to carry out transactions in foreign exchange, foreign security or to own or hold immovable property abroad if the currency, security or property was owned or acquired when he/she was living outside India, or when it was inherited by him/her from someone living outside India.

Monetary policy

Monetary policy consists of the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates. Monetary policy is maintained through actions such as modifying the interest rate, buying or selling government bonds, and changing the amount of money banks are required to keep in the vault (bank reserves).

Broadly, there are two types of monetary policy, **expansionary and contractionary**. Expansionary monetary policy increases the money supply in order to lower unemployment, boost private-sector borrowing and consumer spending, and stimulate economic growth. Often referred to as "easy monetary policy," this description applies to many central banks since the 2008 financial crisis, as interest rates have been low and in many cases near zero.

Contractionary monetary policy slows the rate of growth in the money supply or outright decreases the money supply in order to control inflation; while sometimes necessary, contractionary monetary policy can slow economic growth, increase unemployment and depress borrowing and spending by consumers and businesses. An example would be the Federal Reserve's intervention in the early 1980s: in order to curb inflation of nearly 15%, the Fed raised its benchmark interest rate to 20%. This hike resulted in a recession, but did keep spiraling inflation in check.

Central banks use a number of tools to shape monetary policy. Open market operations directly affect the money supply through buying short-term government bonds (to expand money supply) or selling them (to contract it). Benchmark interest rates, such as the LIBOR and the Fed funds rate, affect the demand for money by raising or lowering the cost to borrow—in essence, money's price. When borrowing is cheap, firms will take on more debt to invest in hiring and expansion; consumers will make larger, long-term purchases with cheap credit; and savers will have more incentive to invest their money in stocks or other assets, rather than earn very little—and perhaps lose money in real terms—through savings accounts. Policy makers also manage risk in the banking system by mandating the reserves that banks must keep on hand. Higher reserve requirements put a damper on lending and rein in inflation.

In recent years, unconventional monetary policy has become more common. This category includes quantitative easing, the purchase of varying financial assets from commercial banks. In the US, the Fed loaded its balance sheet with trillions of dollars in Treasury notes and mortgage-backed securities between 2008 and 2013. The Bank of England, the European Central Bank and the Bank of Japan have pursued similar policies. The effect of quantitative easing is to raise the price of securities, therefore lowering their yields, as well as to increase total money supply. Credit easing is a related unconventional monetary policy tool, involving the purchase of private-sector assets to boost liquidity. Finally, signaling is the use of public communication to ease markets' worries about policy changes: for example, a promise not to raise interest rates for a given number of quarters. Central banks are often, at least in theory, independent from other policy makers.

Fiscal Policy

Fiscal policy is the use of government revenue collection (mainly taxes) and expenditure (spending) to influence the economy. According to Keynesian economics, when the government changes the levels of taxation and government spending, it influences aggregate demand and the level of economic activity. Fiscal policy often attempts to stabilize the economy over the course of the business cycle.

Changes in the level and composition of taxation and government spending can affect the following macroeconomic variables, amongst others, in an economy:

- Aggregate demand and the level of economic activity;
- Savings and investment in the economy;
- Income distribution.

Therefore, Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is the sister strategy to monetary policy through which a central bank influences a nation's money supply. These two policies are used in various combinations to direct a country's economic goals. Here we look at how fiscal policy works, how it must be monitored and how its implementation may affect different people in an economy.

Before the Great Depression, which lasted from Sept. 4, 1929 to the late 1930s or early 1940s, the government's approach to the economy was laissez-faire. Following World War II, it was determined that the government had to take a proactive role in the economy to regulate unemployment, business cycles, inflation and the cost of money. By using a mix of monetary and fiscal policies (depending on the political orientations and the philosophies of those in power at a particular time, one policy may dominate over another), governments are able to control economic phenomena.

Monetary Policy v/s Fiscal Policy

Fiscal policy can be distinguished from monetary policy, in that fiscal policy deals with taxation and government spending and is often administered by an executive under laws of a legislature, whereas monetary policy deals with the money supply, lending rates and interest rates and is often administered by a central bank.

	Fiscal Policy	Monetary Policy
Definition	Fiscal policy is the use of government expenditure and revenue collection to influence the economy.	Monetary policy is the process by which the monetary authority of a country controls the supply of money, often targeting a rate of interest to attain a set of objectives oriented towards the growth and stability of the economy.
Principle	Manipulating the level of aggregate demand in the economy to achieve economic objectives of price stability, full employment, and economic growth.	Manipulating the supply of money to influence outcomes like economic growth, inflation, exchange rates with other currencies and unemployment.
Policy-maker	Government (e.g. U.S. Congress, Treasury Secretary)	Central Bank (e.g. U.S. Federal Reserve or European Central Bank)
Policy Tools	Taxes; amount of government spending	Interest rates; reserve requirements; currency peg; discount window; quantitative easing; open market operations; signalling

Unit 3 (8Hrs)

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

A) Social and Cultural Environment – Nature

The social environment of business includes social factors like customs, traditions, values, beliefs, poverty, literacy, life expectancy rate etc. The social structure and the values that a society cherishes have a considerable influence on the functioning of business firms. For example, during festive seasons there is an increase in the demand for new clothes, sweets, fruits, flower, etc. Due to increase in literacy rate the consumers are becoming more conscious of the quality of the products. Due to change in family composition, more nuclear families with single child concepts have come up. This increases the demand for the different types of household goods. It may be noted that the consumption patterns, the dressing and living styles of people belonging to different social structures and culture vary significantly.

Social or Societary environment of business means all factors which affects business socially. Every business works in a society, so societies ' different factors like family, educational institutions and religion affects business.

Main elements Of Societies and its effect on Business.

1. Family:- Family is basic part of society from the birth of a person and upto death , he lives in family so personal decision of buying and selling of goods are affects from family . In the culture of a family , it may happen that parent does not allow to use any product , then sale of such product will decrease , so businessman must analyse different family's needs . Many occasion of family like marriage of any family member, can increase the demand of goods.

2. Educational institutions: - Educational institutions are also main part of societies. They provide good knowledge, education, awareness, thinking what should students buy or not to buy. Suppose if a student is habitual to drink the tea and if his teacher advises him that this is harmful to his health after his guidance students can avoid drinking tea after this the sale of tea will decrease.

3. Religion: - Like family and education institution, religion is also effects the business socially. Religion means the system in which group of persons trust in God. Different religions have different principles , rules and. So, businessman must analyse the targeted audience and after listening their religious thoughts , he should produce the goods .

Impact of foreign culture on Business

Readily available information, rapid advancement in technology, labor cost factor, trade agreements, standardization, sophisticated distribution methods and channels along with other managerial and operational innovations have gave way to a wave of globalization in the past decade. Many large and medium sized organisations have gone global through organic and inorganic expansion. Companies expected to go global are closely monitored by stakeholders and expert views are sought on future positions of companies (Forbes, 2012) & (Ventures, 2013)

Along with its advantages, globalization also results in some barriers which need to be addressed in order to perform and meet the targets set. One of the many hurdles is difference of cultures and how to cope with the differences in such a way that there is harmony among business units performing internationally. Amongst many others discussed below, the most common barrier is that of communication. Different languages automatically create challenging situations for international companies. It is the responsibility of management to understand the differences in cultures in order to develop strategies which are equally acceptable in different cultures.

Definition of culture in the context of an organisations and organisational behavior along with components that shape a culture are discussed below followed by analysis of impact of culture on international business.

Culture:

The most basic definition of culture is "the way we do things around here" by Deal & Kennedy (1982). Although the definition is self-explanatory, it needs expansion to cover the areas that develop culture. Numerous different definitions of culture have surfaced in the past. Kroeber and Kluckhohn managed to compile a list of more than one hundred and sixty definitions of culture and that too in 1950s (Adler, 1997) great deal of research has gone into this subject since then and many experts have researched and written heavily on culture.

Two different definitions of culture that have gained wide acceptance are quoted below:

"Culture is the collective programming of the mind which distinguishes the members of one group/ category of people from another." (Hofstede, 1994)

"Culture is a fuzzy set of basic assumptions and values, orientations to life, beliefs, policies, procedures and behavioral conventions that are shared by a group of people, and that influence (but do not determine) each member's behavior and his/her interpretations of the 'meaning' of other people's behavior." (Spencer, 2008)

An important feature of culture is that it is learnt and not inherited. Culture lies somewhere between individual personality and human nature because these two traits are unique for every individual, the behavior in-between these two extremes is identical to groups as it is learned and acquired through others. A culture is also "shared" i.e. it exists in groups and societies, beliefs of an individuals can be classified as "ideas" but do not necessarily form part of the overall culture. Collection of idea's however, if similar in nature, become constituents of a developing culture.

Organisational Culture:

Every organisation has its distinct culture; managers should ideally have good understanding of organisational culture to develop meaningful strategies. According to Barney (1986) organisations that give due consideration to culture are able to increase their efficiency and competitive position.

According to Schein (1990), organisational culture is developed at three different levels, i.e. observable artifacts, Values and Underlying assumptions. Observable artifacts mostly consist of tangible and observable things like dress code, success stories, value statements, rituals and ceremonies etc. Values can only be observed overtime in order to understand why certain things are done in certain distinct ways. Underlying assumptions are the dos and don'ts that lie in subconscious mind of individuals. Organisational culture is manifested through a combination of these three features.

It should be noted that the visible aspects of a culture can have different meanings in different cultures e.g. identical hand gestures could mean different meaning in different cultures. So the visible part of the culture i.e. artifacts etc. can be understood if their interpretation is based on the culture in which they exist.

Every culture undergoes gradual changes, this is known as cultural diffusion, and cultural values which have proven beneficial are adopted and incorporated into different cultures through intelligent selection. A fine example is that of Ouchi theory Z, which took the best features of Japanese culture and American culture of management. International organisations also look to adopt and unify culture so that there is less friction between different business units.

Analysis of impact of culture on international businesses is made in the following text in order ascertain the level of cultural understanding manager should possess in order to perform successfully.

Impact of culture on international business:

A business cannot simply rely on its current method of conducting business when it decides to take its business at international level. Every country has a set of different variables which can be new for an offshore company e.g. rules and regulation, taxation, different currency, different holiday periods etc. Most important consideration in this regards is the difference in culture.

In a study on international negotiations between organisations, Korobkin, R. (2000) maintains that successful negotiations not only require technical proficiency i.e. communication technique, but also needs to understand the context in which those negotiations are being done in order to secure profitable contracts.

Business expansion into international territories can be either through internal growth or by mergers and acquisitions. There can be a cultural mismatch In the case of internal growth and the decision to set up a base in a new country from scratch because it takes time learn the culture and adopt its traits. A merger or an acquisition of an already established company is more beneficial method of growth internationally as the parent company can gradually learn the norms and beliefs of the target company through the acquired unit which is being operated according to the local cultural preferences. (Morosini, 1998)

Lee et al. (2011) studied the impact of culture in international organisations in the context of expansion into newer regions with different prevailing cultures and concluded that it is vital for any such organisation with the intention to move into new areas that the cultural differences are understood and mapped in order to bridge the gap between business units performing in multiple cultures.

There can be many similarities in two cultures along with the obvious differences. The levels of similarities between cultures vary for different countries.According to international business theory, multinational organisations try to expand into countries which have more similarities and fewer differences in two cultures so that cultural mismatch can be avoided. (Bilkey & Tesar, 1977)

It is hard to make an outright assumption that expansion into territories with higher cultural differences will adversely affect the performance. There is no conclusive evidence in this regard. In fact some researchers have shown positive performance as a result of moving into countries with greater cultural differences (Pothukuchi et al., 2002).

The importance of cultural understanding in successful international companies is reflected from their marketing strategies which are grounded in the cultures of the target industries. Alternatively, a company with weak understanding of the target company's local culture can commit disastrous mistakes in developing the marketing strategy through designing advertisements which offend people because of culturally unacceptable content.

Companies which do not completely understand the culture of target region's culture often devise marketing strategies which do not attract consumer's attraction and fail right from the start. There are many past examples of culturally incompatible marketing content e.g. using an owl in an advertisement in India where it is thought to be a bad luck symbol and animals wearing prescription and sun glasses in an advertisement designed for Thailand market where animals are thought to be lower forms of life.
Greater cultural distance in international companies can have negative effects which hurt the reputation of company and overall business in the long run. A cultural blunder can result in loss of customers as they shy away; it can create problems for a company through pressure groups and general public outrage, attracting negative feedback in the process. Loss of customers means lesser revenues and eventually lesser profits; people offended by cultural mistakes committed by companies can file lawsuits which can result in fines or settlement pay-outs.

21st century is dubbed as the century of globalization where trade and other barriers have been put down either willingly to support business or unwillingly notwithstanding the wave of technological advancement. Flow of information is more than ever, markets are approachable and the company with the right product will always want to cater as many consumers as possible. This is where the problem starts.

As an organisation moves into a region with different culture it faces many hurdles such as different language, norms and beliefs, tastes and preferences etc., if the organisation does not align itself with the prevailing culture then it cannot fully reap benefits of expansion, hence understanding the culture of a nation is highly required.

Traditional Values and its Impact

Professionals err when thinking that, in today's shrinking world, cultural differences are no longer significant. It's a common mistake to assume that people think alike just because they dress alike; it's also a mistake to assume that people think alike just because they are similar in their word choices in a business setting. Even in today's global world, there are wide cultural differences, and these differences influence how people do business. Culture impacts many things in business, including

- The pace of business;
- Business protocol—how to physically and verbally meet and interact;
- Decision making and negotiating;
- Managing employees and projects;
- Propensity for risk taking; and
- Marketing, sales, and distribution.

There are still many people around the world who think that business is just about core business principles and making money. They assume that issues like culture don't really matter. These issues do matter—in many ways. Even though people are focused on the bottom line, people do business with people they like, trust, and understand. Culture determines all of these key issues

Values may be defined as important and enduring beliefs or ideals shared by the members of a culture about what is good or desirable and what is not. Values exert major influence on the behavior of an individual and serve as broad guidelines in all situations.

Organisational Values are therefore the beliefs and ideas about what kinds of goals members of an organisation should pursue and ideas about the appropriate kinds or standards of behaviour organisational members should use to achieve these goals. From organisational values develop organisational norms, guidelines, or expectations that prescribe appropriate kinds of behaviour by employees in

particular situations and control the behaviour of organisational members towards one another.
Putting these together In a nutshell, if culture is the common or shared system of behaviour of a group of people, values provide the reason for their actions and the filter through which the world is seen, evaluated and responded to and why one action or approach is preferred above another.

The cases shows how a simple issue, such as local flavor preferences, can impact a billion-dollar company. The influence of cultural factors on business is extensive. Culture impacts how employees are best managed based on their values and priorities. It also impacts the functional areas of marketing, sales, and distribution.

It can affect a company’s analysis and decision on how best to enter a new market. Do they prefer a partner (tending toward uncertainty avoidance) so they do not have to worry about local practices or government relations? Or are they willing to set up a wholly owned unit to recoup the best financial prospects?

Understanding the culture of the people with whom you are dealing is important to successful business interactions and to accomplishing business objectives. For example, you’ll need to understand

- How people communicate;
- How culture impacts how people view time and deadlines;
- How they are likely to ask questions or highlight problems;
- How people respond to management and authority;
- How people perceive verbal and physical communications; and
- How people make decisions.

To conduct business with people from other cultures, you must put aside preconceived notions and strive to learn about the culture of your counterpart. Often the greatest challenge is learning not to apply your own value system when judging people from other cultures. It is important to remember that there are no right or wrong ways to deal with other people—just different ways. Concepts like time and ethics are viewed differently from place to place, and the smart business professional will seek to understand the rationale underlying another culture’s concepts.
Example:
In most Latin American countries, old-world manners are still the rule, and an air of formality is expected in most business interactions and interpersonal relationships,

especially when people are not well acquainted with one another. People in business are expected to dress conservatively and professionally and be polite at all times. Latin Americans are generally very physical and outgoing in their expressions and body language. They frequently stand closer to one another when talking than in many other cultures. They often touch, usually an arm, and even kiss women's cheeks on a first meeting.

Social Audit

Social audit as a term was used as far back as the 1950s. There has been a flurry of activity and interest in the last seven to eight years in India and neighboring countries. Voluntary development organizations are also actively concerned.

Social audit is based on the principle that democratic local governance should be carried out, as far as possible, with the consent and understanding of all concerned. It is thus a process and not an event.

What is a social audit?

A social audit is a way of measuring, understanding, reporting and ultimately improving an organization's social and ethical performance. A social audit helps to narrow gaps between vision/goal and reality, between efficiency and effectiveness. It is a technique to understand, measure, verify, report on and to improve the social performance of the organization.

Social auditing creates an impact upon governance. It values the voice of stakeholders, including marginalized/poor groups whose voices are rarely heard. Social auditing is taken up for the purpose of enhancing local governance, particularly for strengthening accountability and transparency in local bodies.

The key difference between development and social audit is that a social audit focuses on the neglected issue of social impacts, while a development audit has a broader focus including environment and economic issues, such as the efficiency of a project or programme.

Objectives of social audit

1. Assessing the physical and financial gaps between needs and resources available for local development.
2. Creating awareness among beneficiaries and providers of local social and productive services.

3. Increasing efficacy and effectiveness of local development programmes.
4. Scrutiny of various policy decisions, keeping in view stakeholder interests and priorities, particularly of rural poor.
5. Estimation of the opportunity cost for stakeholders of not getting timely access to public services.

Advantages of social audit

(a) Trains the community on participatory local planning.
(b) Encourages local democracy.
(c) Encourages community participation.
(d) Benefits disadvantaged groups.
(e) Promotes collective decision making and sharing responsibilities.
(f) Develops human resources and social capital

To be effective, the social auditor must have the right to:

1. seek clarifications from the implementing agency about any decision-making, activity, scheme, income and expenditure incurred by the agency;
2. consider and scrutinize existing schemes and local activities of the agency; and
3. access registers and documents relating to all development activities undertaken by the implementing agency or by any other government department.

This requires transparency in the decision-making and activities of the implementing agencies. In a way, social audit includes measures for enhancing transparency by enforcing the right to information in the planning and implementation of local development activities.

Examples of social audit

1. Social audit in Jharnipalli Panchayat, Agaipur block, Bolangir district, Orissa

In October 2001, the gram sabha members of Jharnipalli Panchayat conducted a one-day social audit of development works carried out in the panchayat over the preceding three years. This audit took place with the active participation of many individuals and agencies, including block and district administration officials, MKSS [Mazdoor Kisan Shakti Sanghatan], NCPRI [National Campaign for People's Right to Information] and Action Aid India.

The audit found that:

- Although the works were not carried out, the sanctioned funds were shown in the records as having been utilized.
- Contractors were banned under government guidelines, but 31 contractors were working on the project.
- Muster rolls were not maintained by the contractors.
- Instead of the target of 100 man-days of employment for families below the poverty line (BPL), only 12 half days of work were generated.
- The BPL families could not buy subsidized food from the public distribution system (PDS) shops as partial wages because they did not possess the needed ration cards.

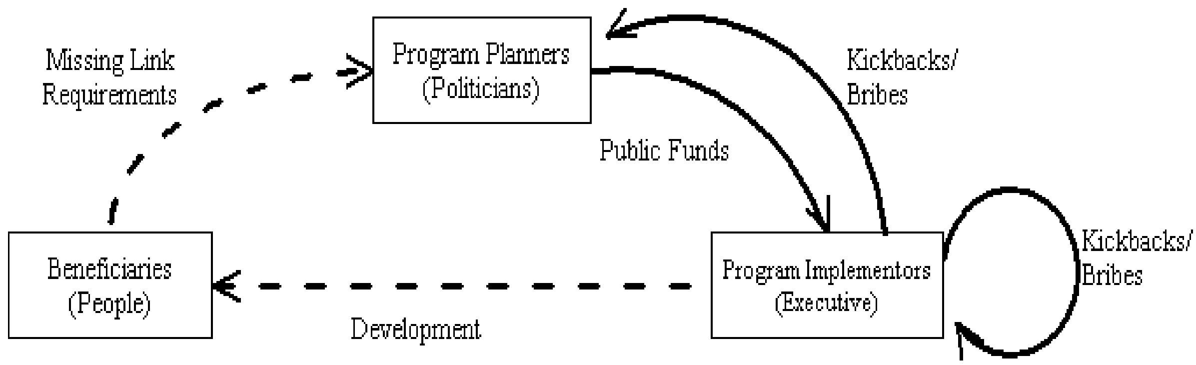
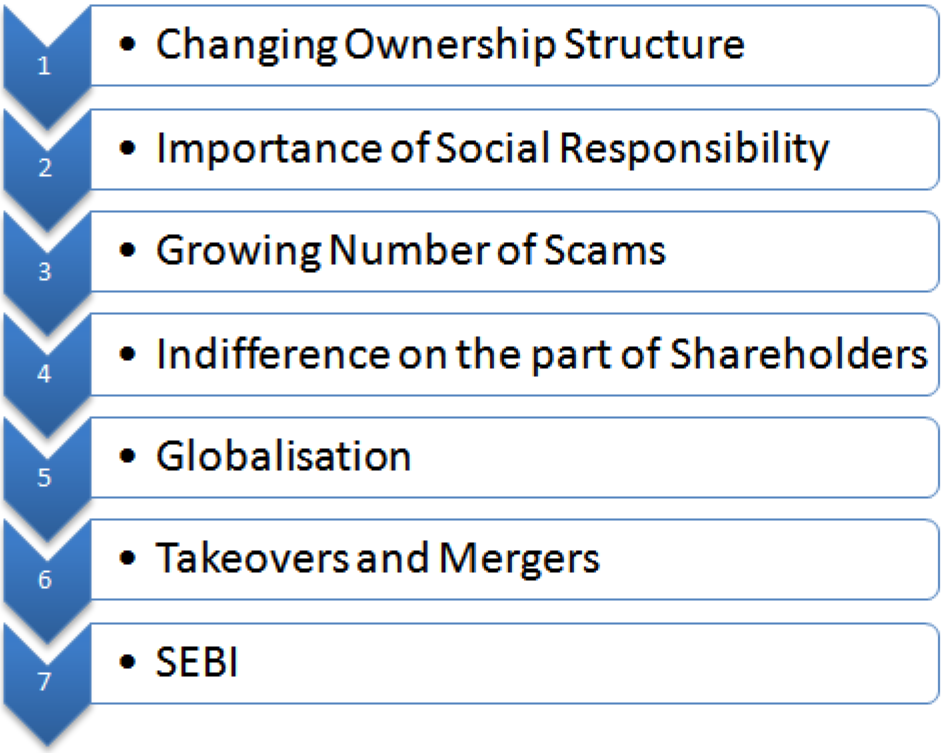


Figure 1 - Situation without Social Audit

Importance of Corporate Governance

OECD Principles describe **corporate governance** in terms of relationship between management of **company**, its shareholders, its board and other stakeholders. It is empirically proved that good **governance** is essential for good business which is the need of every organization

The need, significance or importance of corporate governance is listed below



1. Changing Ownership Structure: In recent years, the ownership structure of companies has changed a lot. Public financial institutions, mutual funds, etc. are the single largest shareholder in most of the large companies. So, they have effective control on the management of the companies. They force the management to use corporate governance. That is, they put pressure on the management to become more efficient, transparent, accountable, etc. The also ask the management to make consumer-friendly policies, to protect all social groups and to protect the environment. So, the changing ownership structure has resulted in corporate governance.

1. **Importance of Social Responsibility**: Today, social responsibility is given a lot of importance. The Board of Directors have to protect the rights of the customers, employees, shareholders, suppliers, local communities, etc. This is possible only if they use corporate governance.

2. **Growing Number of Scams**: In recent years, many scams, frauds and corrupt practices have taken place. Misuse and misappropriation of public money are happening every day in India and worldwide. It is happening in the stock market, banks, financial institutions, companies and government offices. In order to avoid these scams and financial irregularities, many companies have started corporate governance.

3. **Indifference on the part of Shareholders**: In general, shareholders are inactive in the management of their companies. They only attend the Annual general meeting. Postal ballot is still absent in India. Proxies are not allowed to speak in the meetings. Shareholders associations are not strong. Therefore, directors misuse their power for their own benefits. So, there is a need for corporate governance to protect all the stakeholders of the company.

4. **Globalisation**: Today most big companies are selling their goods in the global market. So, they have to attract foreign investor and foreign customers. They also have to follow foreign rules and regulations. All this requires corporate governance. Without Corporate governance, it is impossible to enter, survive and succeed the global market

5. **Takeovers and Mergers**: Today, there are many takeovers and mergers in the business world. Corporate governance is required to protect the interest of all the parties during takeovers and mergers.

6. **SEBI**: SEBI has made corporate governance compulsory for certain companies. This is done to protect the interest of the investors and other stakeholders.

Social Responsibility of Business

Social responsibility means that individuals and companies have a duty to act in the best interests of their environments and society as a whole. Social responsibility as it applies to business is known as **corporate social responsibility** (**CSR**).

Social responsibility takes on different meanings within industries and companies. For example, Starbucks Corporation and Ben & Jerry's Homemade Holdings Inc. have blended social responsibility into the core of their operations. Both companies purchase Fair Trade Certified ingredients to manufacture their products and actively support sustainable farming in the regions where they source ingredients. Conversely, big-box retailer Target Corporation, also well known for its social responsibility programs, has donated more than $875 million in grants to the communities in which the stores operate, including education grants, since 2010.

Social Responsibility Concerns

Not everyone believes that business should have a social conscience. Economist Milton Friedman stated the "social responsibilities of business are notable for their analytical looseness and lack of rigor." Friedman believed only individuals can have a sense of social responsibility. Businesses, by their very nature, cannot. Some experts believe that social responsibility defies the very point of being in business: profit above all else.

Business ethics

Business ethics (also corporate ethics) is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of **business conduct** and is relevant to the **conduct** of individuals and entire organizations.

Acting in a ethical way involves distinguishing between "right" and "wrong" and then making the "right" choice. It is relatively easy to identify unethical business practices. For example, companies should not use child labour. They should not unlawfully use copyrighted materials and processes. They should not engage in bribery.

However, it is not always easy to create similar hard-and-fast definitions of good ethical practice. A company must make a competitive return for its shareholders and treat its employees fairly. A company also has wider responsibilities. It should minimise any harm to the environment and work in ways that do not damage the communities in which it operates. This is known as corporate social responsibility.

B) Competitive Environment

A **competitive environment** is the dynamic external system in which a business competes and functions. The more sellers of a similar product or service, the more **competitive** the **environment** in which you compete. Look at fast food restaurants - there are so many to choose from; the competition is high.

The term "competitive environment" refers to the number and types of companies against which a given business competes in its industry. Direct competitors are those that sell very similar goods and services. Indirect competitors are those that sell unrelated goods and services, but to similar target markets.

The more serious competitors a company faces as it operates a business, the more beneficial it is for the business to differentiate itself to customers, according to an article for the Houston Chronicle. Promoting distinct benefits or attributes helps customers recognize how a brand is positioned within the competitive environment. In highly competitive environments, companies also face greater pressure to offer low or affordable prices.

Michael Porter's Five Forces Analysis

Porter five forces analysis is a framework to analyse level of competition within an industry and business strategy development. It draws upon industrial organization (IO) economics to derive **five forces** that determine the competitive intensity and therefore attractiveness of an Industry.

Threat of new entrants

Profitable markets that yield high returns will attract new firms. This results in many new entrants, which eventually will decrease profitability for all firms in the industry. Unless the entry of new firms can be blocked by incumbents (which in business refers to the largest company in a certain industry, for instance, in telecommunications, the traditional phone company, typically called the "incumbent operator"), the abnormal profit rate will trend towards zero (perfect competition).

The following factors can have an effect on how much of a threat new entrants may pose:

- The existence of barriers to entry (patents, rights, etc.). The most attractive segment is one in which entry barriers are high and exit barriers are low. Few new firms can enter and non-performing firms can exit easily.
- Government policy
- Capital requirements
- Absolute cost
- Cost disadvantages independent of size
- Economies of scale
- Economies of product differences
- Product differentiation
- Brand equity
- Switching costs or sunk costs
- Expected retaliation
- Access to distribution
- Customer loyalty to established brands
- Industry profitability (the more profitable the industry the more attractive it will be to new competitors)
- Network effect

Threat of substitutes

The existence of products outside of the realm of the common product boundaries increases the propensity of customers to switch to alternatives. For example, tap water might be considered a substitute for Coke, whereas Pepsi is a competitor's similar product. Increased marketing for drinking tap water might "shrink the pie" for both Coke and Pepsi, whereas increased Pepsi advertising would likely "grow the pie" (increase consumption of all soft drinks), albeit while giving Pepsi a larger slice at Coke's expense. Another example is the substitute of a landline phone with a cellular phone.

Potential factors:

- Buyer propensity to substitute
- Relative price performance of substitute
- Buyer switching costs
- Perceived level of product differentiation
- Number of substitute products available in the market
- Ease of substitution
- Substandard product
- Quality depreciation
- Availability of close substitute

Bargaining power of customers

The bargaining power of customers is also described as the market of outputs: the ability of customers to put the firm under pressure, which also affects the customer's sensitivity to price changes. Firms can take measures to reduce buyer power, such as implementing a loyalty program. The buyer power is high if the buyer has many alternatives. The buyer power is low if they act independently e.g. If a large number of customers will act with each other and ask to make prices low the company will have no other choice because of large number of customers pressure.

Potential factors:

- Buyer concentration to firm concentration ratio
- Degree of dependency upon existing channels of distribution
- Bargaining leverage, particularly in industries with high fixed costs
- Buyer switching costs relative to firm switching costs
- Buyer information availability

- Force down prices
- Availability of existing substitute products
- Buyer price sensitivity
- Differential advantage (uniqueness) of industry products
- RFM (customer value) Analysis
- The total amount of trading

Bargaining power of suppliers

The bargaining power of suppliers is also described as the market of inputs. Suppliers of raw materials, components, labor, and services (such as expertise) to the firm can be a source of power over the firm when there are few substitutes. If you are making biscuits and there is only one person who sells flour, you have no alternative but to buy it from them. Suppliers may refuse to work with the firm or charge excessively high prices for unique resources.

Potential factors are:

- Supplier switching costs relative to firm switching costs
- Degree of differentiation of inputs
- Impact of inputs on cost and differentiation
- Presence of substitute inputs
- Strength of distribution channel
- Supplier concentration to firm concentration ratio
- Employee solidarity (e.g. labor unions)
- Supplier competition: the ability to forward vertically integrate and cut out the buyer.

Industry rivalry

For most industries the intensity of competitive rivalry is the major determinant of the competitiveness of the industry.

Potential factors:

- Sustainable competitive advantage through innovation
- Competition between online and offline companies
- Level of advertising expense
- Powerful competitive strategy
- Firm concentration ratio
- Degree of transparency

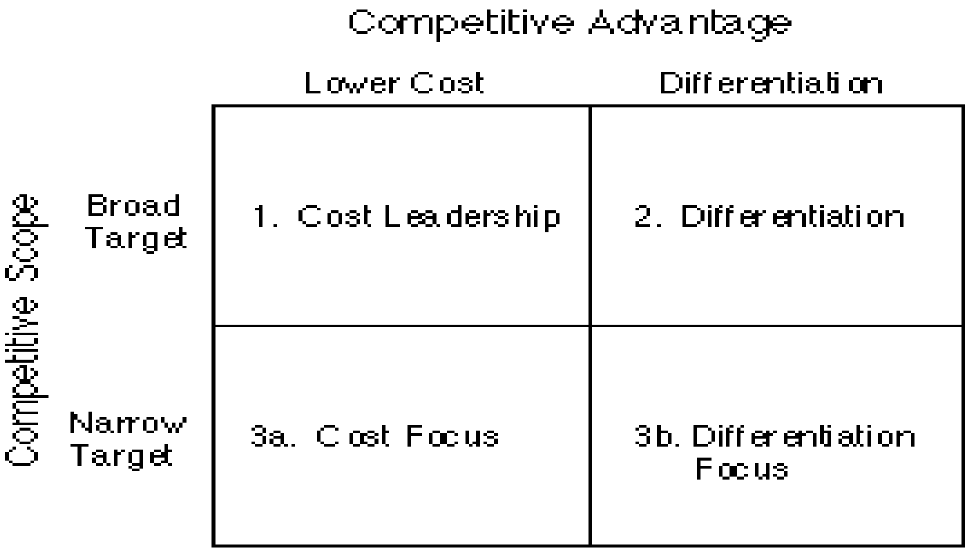
Criticism

Porter's framework has been challenged by other academics and strategists such as Stewart Neill. Similarly, the likes of ABC, Kevin P. Coyne and Somu Subramaniam have stated that three dubious assumptions underlie the five forces:

- That buyers, competitors, and suppliers are unrelated and do not interact and collude.
- That the source of value is structural advantage (creating barriers to entry).
- That uncertainty is low, allowing participants in a market to plan for and respond to competitive behavior.

Competitive Strategies

A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus.



1. Cost Leadership

In cost leadership, a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage. if a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average.

2. Differentiation

In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price.

3. Focus

The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others.

<u>The focus strategy has two variants.</u>

(a) In cost focus a firm seeks a cost advantage in its target segment, while

(b) In differentiation focus a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behaviour in some segments, while differentiation focus exploits the special needs of buyers in certain segments.

Also,