PG CM S1-03 (DSC)

TWO YEAR MASTER'S DEGREE COURSE
(CBCS in Accordance with NEP 2020)
SEMESTER-1

BUSINESS ENVIRONMENT

COMMERCE

Maniram Dewan School of Management
KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

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July, 2023

ISBN : 978-93-87940-42-0

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Printed and published by Registrar on behalf of the Krishna Kanta Handiqui State Open University.

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MASTER OF COMMERCE
BUSINESS ENVIRONMENT
DETAILED SYLLABUS

Unit 1: Introduction to Business Environment **Page 7-22**

Nature, scope and objectives of business, business system, characteristics of business, classification of business, meaning of business environment, types of business environment, environmental analysis and forecasting

UNIT 2: Composition and scope of business environment **Page 23-32**

External Environment, Economic Environment, Natural Environment, Political and legal Environment, Socio-cultural Environment, Technological Environment, Demographic Environment

Unit 3: Social Responsibility of Business and Corporate Governance **Page 33-48**

Social orientation of business, factors affecting social orientation, CSR, social audit, meaning of corporate governance, importance of corporate governance, regulatory and voluntary actions, legal environment of corporate governance in India

Unit 4: Industrial Policies **Page 49-66**

Meaning of Developed Economy and Mixed Economic System, concept of economic reforms, evolution of Industrial Policy in India, Industrial Policy Resolution up to 1991, New Industrial Policy 1991, evaluation of the New Industrial Policy 1991, meaning of privatization, meaning of disinvestment, Insurance Regulatory and Development Authority (IRDA)

UNIT 5: Village and Small Industries **Page 67-82**

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UNIT 11: Economic Development : **Page 154-170**

Industrial development in India, public sector in India, private sector in India, exports and imports of India

UNIT 12: Economic Planning: **Page 171-185**

Definition of economic planning, features of economic planning, stages of economic planning, economic planning in India, objectives of

planning in India, Planning Commission and the National Development Council, summary of Five Year Plans in India, the Twelfth Five Year Plan, NITI Aayog , Economic Survey, Union Budget

UNIT 13: Globalisation of Business: **Page 186-199**

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COURSE INTRODUCTION

Business Environment is the third course of 1st Semester of M. Com. Programme. Broadly, this course comprises the basic meaning of 'business environment' and the ecosystem of business environment. The different factors which influence the business decision- making like, financial factors, economic policies, industrial policies, technological factors, money market, capital market, protection of intellectual assets of the company etc. The study of all these factors and policies will give an understanding about the different compelling factors on the basis of which business organisations have to function. For the learners of M. Com. Programme, this course is likely to be a knowledge horizon to run future business organisations successfully.

Each unit of this course includes some along-side boxes to help you know some of the difficult, unseen terms. Some “EXERCISES” have been included to help you apply your own thoughts. You may find some boxes marked with: “LET US KNOW”. These boxes will provide you with some additional interesting and relevant information. Again, you will get “CHECK YOUR PROGRESS” questions. These have been designed to self-check your progress of study. It will be helpful for you if you solve the problems put in these boxes immediately after you go through the sections of the units and then match your answers with “ANSWERS TO CHECK YOUR PROGRESS” given at the end of each unit. you in making your learning more active and efficient.

UNIT 1: INTRODUCTION TO BUSINESS ENVIRONMENT

UNIT STRUCTURE

1.1 Learning Objectives
1.2 Introduction
1.3 Nature, Scope and Objectives of Business
1.4 Business System
1.5 Characteristics of Business
1.6 Classification of Business
1.7 Meaning of Business Environment
1.8 Types of Business Environment
1.9 Environmental Analysis and Forecasting
1.10 Let Us Sum Up
1.11 Answers to Check Your Progress
1.12 Further Reading
1.13 Model Questions

1.1 LEARNING OBJECTIVES

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

- explain the nature, scope and objectives of business
- discuss the meaning of business system
- describe the characteristics and classification of business
- discuss the meaning of business environment
- analyse the aspects related with environmental analysis and forecasting

1.2 INTRODUCTION

The first unit of the course on business environment discusses the meaning, characteristics and classification of business in addition to the discussion on business environment and environmental influence on business. This unit will help us to know the relationship between the organization and its environment - the micro and macro environment. In

addition to this, the unit will also touch upon on the impact of demographic, economic, government, legal, political, cultural, technological and global environment on business. This will help us in understanding the importance of environmental analysis.

1.3 NATURE, SCOPE AND OBJECTIVES OF BUSINESS

In simple words business means an occupation in which people regularly engage in an activity with a view to earning profit. Business involves the activities like production or purchase of goods for sale, or exchange of goods or supply of services to satisfy the needs of other people.

Let us discus some definitions of business given by some scholars:
According to Prof. R. N. Owens: "Business is an enterprise engaged in the production and distribution of goods for sale in a market or rendering of services for a price"
According to L.R. Dicksee: "Business is a form of activity pursued primarily with the object of earning profits for the benefit of those on whose behalf the activity is conducted"
According to Urwick and Hunt: "Business is any enterprise which makes, distributes or provides any article or service which other members of the community need and are willing to pay for"
According to Haney: "Business may be defined as human activity directed towards producing or acquiring wealth through buying and selling of goods"

From the above definitions, we can infer that the word business implies employment, trade, profession or occupation, commercial activity or task, a commercial or an industrial concern etc. The meaning would depend upon the context to which the word is used. The term is used in different senses. In a functional sense it is used to indicate the functions or activities of an organization or a business person. The term is also used to embrace the whole business system, comprising the whole gamut of industry and commerce. Business is an integral part of society.

1.4 BUSINESS SYSTEM

Business in general terms refer to the buying and selling of goods which is too general and cannot be of help while analyzing the role of environment and how it impacts business. Therefore, in more concrete terms, business covers a complex field of industry and commerce which involves activities related to both production and distribution. These activities satisfy both social and economic needs. Further it includes activities connected with production, trade, transport, finance, banking, insurance, advertising and other related activities.

When we talk about Business System we further refer to a methodical procedure or process that is used as a delivery mechanism for providing specific goods or services to customers. The system can be classified into two categories: a) Industry b) Commerce. Industry involves production of goods and services whereas commerce is concerned with the distribution of goods and services.

Industry: Industry comprises of activities which are associated with the process of manufacturing of goods. It involves the process by which raw materials can be utilized to convert them to the finished product, e.g. the Indian city of Jaipur is the biggest processing hub of gem stones, claiming 95 percent of the total exports of the finished gemstone.

Commerce: Activities which are associated with transfer of goods and services from producers to final users, which further includes suppliers, distributors, and consumers and so on, come under the purview of commerce. The goal of commerce is to ensure and facilitate movement of goods and services for the advantage of both producers and consumers. It requires several activities like transport, banking, insurance, warehousing, advertising, etc.

1.5 CHARACTERISTICS OF BUSINESS

As discussed in the previous section, business is an activity that is carried out with the intention of making financial benefits and it has the following characteristics -

1. **Exchange of goods and services for Income:** The first characteristic of business involves the exchange of goods and services. Business is to provide goods and render services to people. It provides the public with the things it needs and wants in order to survive, enjoy life and improve in a material sense. Business provides the solution to the needs and desire of the customers.
2. **Profit Motive:** The other characteristic of business is the profit motive. Business is always a profit seeking activity. It supplies goods and services to customers who satisfy their demand and desire. It adds to society's value by earning of a profit. Profit is the biggest stimulus for survival of the business and its future development. Society permits business to earn profit as a reward for assuming the risks of operating a business.
3. **Recurring Activities:** All the activities in business are recurring in nature and it operates in a continuous basis. Business is not one-time activity. Business is continuous.
4. **Risks:** When we talk about business then there will always be a risk associated with it. One of the economic theories of profit regards profit as "reward for bearing risks". The common risks can be identified as the changes in the technology, consumer tastes and preferences, supply and demand conditions etc. The changes take place at a faster rate making it quite risky for the firm to sustain.
5. **Creating values to Social Needs:** Business is also an essential participant in society. As a result, society looks to business for something more than products, services and profits. Business being a part of the society should be conducted in an ethical manner so that it can contribute to the overall development of the society. Business has a pioneering responsibility to create or produce various products or services suiting to the needs of the society.

1.6 CLASSIFICATION OF BUSINESS

Business may be classified in the following ways:

a. Business that produces or supplies Goods
b. Business which produces or provides Services
c. Business that distributes Goods
d. Business that facilitates distribution of Goods
e. Business that deals in Finance and Financial Services

Let us discuss it in detail:

a. Business that produces or supplies Goods: Goods can be classified as i) Products and ii) Commodities. Commodities are the goods produced by the primary sector for example 'Agriculture, fishing and Mining'. Products are the goods produced by the secondary sector for example 'Manufacturing' industries.

The concept of commodity and product can be with the help of the following examples. Wheat is a commodity whereas the wheat flour is a processed product. Similarly, tomato is a commodity and the product will be tomato sauce. Sugarcane is a commodity; sugar is a product. Atta is a product; Ashirvaad Atta is a brand.

b. Business which produces or provides Services: Service sector is a part of tertiary sector. Tertiary sector comprises trade and services. A service is different from the physical goods. The examples of various services are banking, hotel, education, health, recreation, media, real estate etc.

c. Businesses that distribute Goods: Distribution may be explained as the process of moving the product from the producer to the consumer. In this process, a good number of business opportunities are there. Dealers, C&F Agents, wholesalers, retailers are various examples in this regard.

d. Business that facilitates distribution of Goods: There are many types of firms that facilitate the distribution of goods for example auction houses, transportation firms, warehouses, courier companies etc.

e. **Business that deals in finance and financial services:** Many a business depends to a large extent on funds raised from external sources. The examples are: commercial banks, developmental banks, and insurance and investment companies.

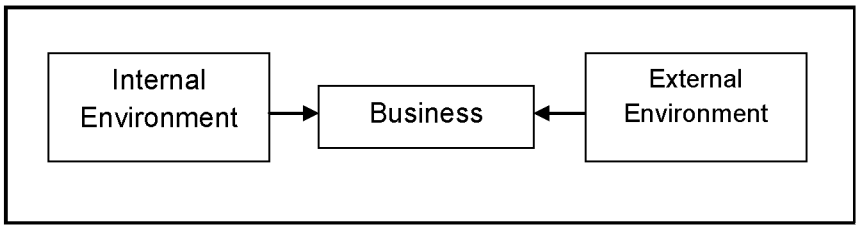
1.7 MEANING OF BUSINESS ENVIRONMENT

Important decisions related to business such as what business is to do, which segment of the market to be targeted, when to start the business, how to do the business, where to do the business, whether to consolidate the business or expand the business are influenced by a number of factors which constitute what is generally referred to as the business environment. 'Environment' literally means the surroundings, external objects, influences or circumstances under which someone or something exists. Kevith Davis defines the environment of business as 'the aggregate of all conditions, events, and influences that surround and affect it'. Environment includes both internal and external factors. What we understand of internal environment is the organizational resources, financial, marketing and operational capability, the human resources and the image of the organisation.

1.8 TYPES OF BUSINESS ENVIRONMENT

Business environment implies all the internal and the external factors that have an impact on the business. The factors may be the internal power relationship and orientation of the organization, government policies and regulations etc. As discussed already, the term 'business environment' means the sum total of all individuals, institutions and other forces like government policies and regulations, nature of the economy, socio cultural factors, demographic factors, natural factors etc. that may affect the performance of business. Business environment is the combination of internal and external factors that influence a company's operating system. Business environment are of two types:

1. Internal environment: The factors that are internal to the organization
2. External environment: The factors that are external to the organization



The internal environment includes the factors like value system, mission and objectives, organisational structure, corporate culture, quality of human resource, physical resources and technical capabilities.

The external environment comprises of the 'business environment' which include external factors which might influence the firm resulting into competition, opportunities, threats to the firm. It can be further divided into micro and macro environment.



CHECK YOUR PROGRESS

Q.1 : Define Business Environment.

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A. Micro Environment :

The micro environment essentially comprises of factors based on a set of relations which are internal to the firm.

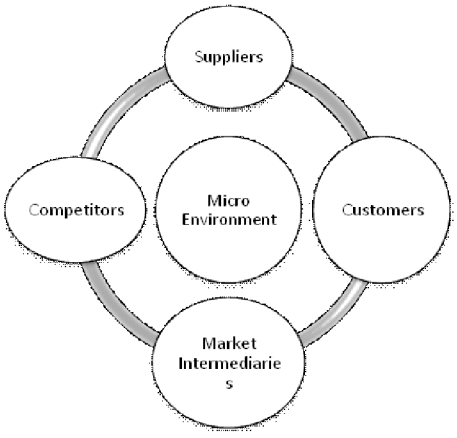


Fig 1.1: Constituents of Micro Environment

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. Micro environment deals suppliers, competitors, marketing intermediaries (like dealers, wholesalers etc.), customers, pressure groups and the general public.

a. Supplier: Banks and other similar organizations that supply money to the organization are also termed as suppliers. The firms that supply raw materials and machineries are also included in suppliers.

b. Customer: Customers are also an important factor in the micro environment of business. The customers or the clients absorb the output of an organization and a business exists to meet the demands of the customers. Customers could be individuals, industries, government and other institutions.

c. Labor force is also an important part of the internal environment of business. The employees of the business enterprise produce and provide the services for the customers.

In addition to the above, the advertising agencies, business associates, competitors, regulatory agencies and the marketing intermediaries are also a part of the micro environment.

B. **Macro Environment:** The most important factors of macro environment are economic, governmental, legal, technological, geographical and social.

a. Economic factors: The economic factors comprise of features which have a strong bearing on the functioning of the business unit. It includes factors such as the per capita income, national income, infrastructure development, capital formation, resource mobilization, exploitation of natural resources etc.

b. Governmental Factors: The policy of the ruling government has a direct impact on the functioning of the business unit. The

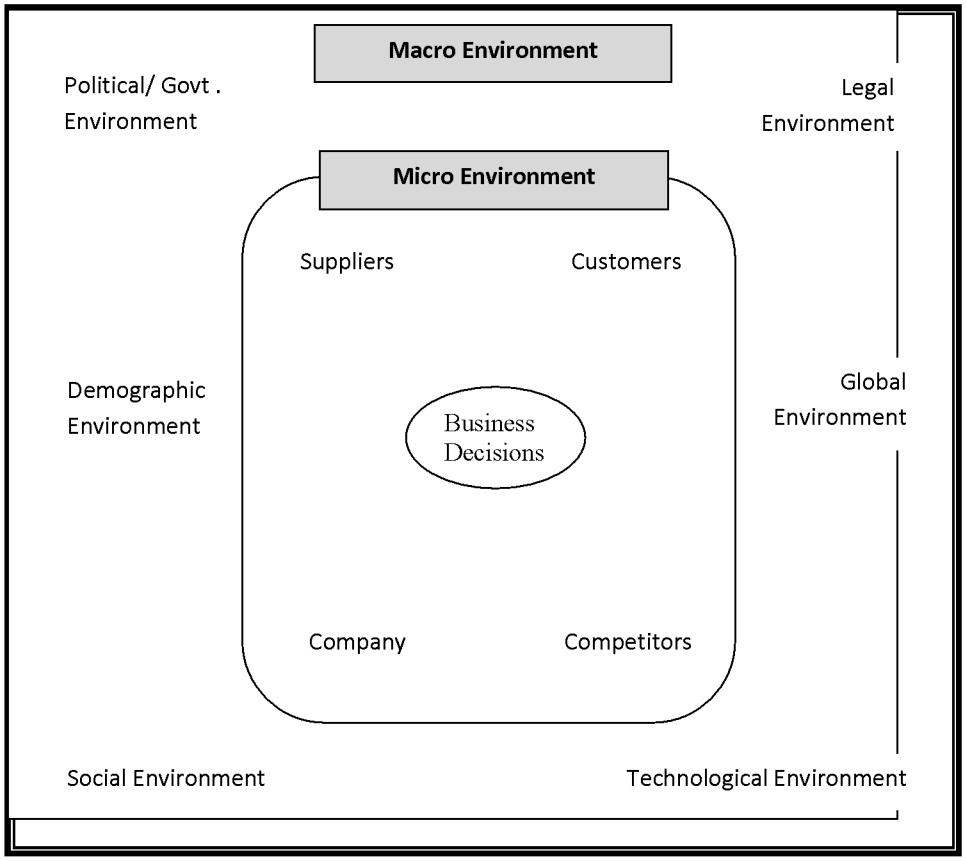
decision to liberalize trade to integrate it with the global economy has resulted into major impact on the Indian Economy. Other factors associated include the taxation policies, foreign exchange policies, trade policies and regulations to promote export, policies to boost up domestic production to increase exports, monetary and fiscal policies and so on impact business environment.

c. **Legal Factors:** The legal environment comprises of laws which are set to guide the business sector and create an environment which encourages fair competition and a controlled type of expansion. It is vital for the proper growth of business hence every aspect of business is regulated by different laws. Examples are laws related to foreign exchange regulations, industrial disputes, monopoly control, industrial licensing, factory administration and so on.

d. **Technological Factors:** Technology plays an important role in determining the level of investment associated, be it modern technology, labor-augmenting technology or labor- supplanting technology. A modern technology attracts business investment, whereas old technology repels it. Further it can be used to substitute capital or enhance the use of capital.

e. **Geographical Factors:** Geographical factors which include seasonal variations, climatic conditions, topographical factors, variations in locations have an impact on the tastes and preferences of people. Further, the geographical distribution of resources and raw materials has an important impact on business.

f. **Social Factors:** A number of social and demographic factors influence business like age, sex, habits, attitude, occupational pattern and many more impact business. The rise in the number of double income households have resulted in increase in consumption of packaged food products, electronic goods etc.





CHECK YOUR PROGRESS

Q.1 : Distinguish between micro and macro environment of business

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1.9 ENVIRONMENTAL ANALYSIS AND FORECASTING

The purpose of environmental analysis is to identify the existing and emerging threats and opportunities to help formulate appropriate strategies. It is a strategic tool. In today's changing world, many new things develop over time and the whole scenario can alter in a very short time. As discussed in the previous sections, businesses are influenced by their environment. All the situational factors which determine day to day circumstances impact

firms. So, businesses must constantly analyse the internal and external environment and the market. Environmental analysis can be divided into four stages namely: Scanning, Monitoring, Forecasting and Assessment.

a) **Scanning** is the process of analysing the environment for identification of the factors which has an impact on the business.

b) **Monitoring** represents a process whereby analysts observe environmental changes (over time) to see if an important trend begins to emerge.

c) **Forecasting** represents the process where analysts develop feasible projections of what might happen-and how quickly-as a result of the changes and trends detected through scanning and monitoring. The last stage is assessing.

d) **Assessing** is to determine the timing and significance of the effects of changes and trends in the environment on the strategic management of a firm.

The commonly used analysis of the environment is the PESTLE analysis. PESTLE stands for:

P: Political factors
E: Economic factors
S: Social factors
T: Technological factors
L: Legal factors
E: Environmental factor

Let us discuss about the factors in detail:

a. **Political factors:** Changes in the political system, changes in the internal power structure of political parties including the changes in leadership, political alliance etc. has implications for business. The political factors take the country's current political situation. It also reads the effect of global politics on the country and business. Some political factors that are taken into consideration are:

- Government policies
- Taxation laws and tariff
- Entry mode regulations

b. **Economic factors:** Economic factors involve all the determinants of the economy which include general economic conditions, GDP growth rate, per capita income, distribution of income, investment, price trends etc. It helps to set up strategies in line with changes. The following is the list of some determinants that can be assessed to know how economic factors affect business:

- The inflation rate
- The interest rate
- Disposable income of buyers
- Credit accessibility
- Unemployment rates
- The monetary or fiscal policies
- The foreign exchange rate

c. **Social factors:** The social factors include the population growth/ decline, age structure of population, ethnic composition of population, occupational pattern, migration, factors related to family, lifestyle religion and cultural festivals etc.

d. **Technological factors:** Technology is advancing daily and continuously. The advancement is greatly influencing businesses. Performing environmental analysis on these factors will help a business to stay up to date with the changes. Firms can use the following factors for their benefit:

- New discoveries
- Rate of technological obsolescence
- Rate of technological advances
- Innovative technological platforms

e. **Legal factors:** Legislative changes take place from time to time. Many of these changes affect the business environment. If a regulatory body sets up a regulation for industries, that law

would impact industries and business in that economy. So, businesses should also analyse the legal developments in respective environments.

The following are some of the legal factors:

- Product regulations
- Employment regulations
- Competitive regulations
- Patent infringements
- Health and safety regulations

f. Environmental factors: The location and topography influences business and trades. Changes in climatic changes can affect the trade. Some environmental factors are:

- Geographical location
- The climate and weather
- Waste disposal laws
- Energy consumption regulation
- People's attitude towards the environment

The following are the benefits of environmental analysis:

- The very idea of environmental analysis makes one aware of the environment-organization linkage.
- It helps an organization to identify present and future threats and opportunities.
- It helps to understand the transformation of the industry environment.
- It contributes in identification of risks.
- It helps in formulation of strategies.
- It keeps the mangers informed, alert and dynamic.

Any meaningful organization has certain mission, goals and objectives. The organization has to have certain policies and strategies to achieve its mission, goals and objectives. Business environment has implications on shaping of all these integral and interrelated elements. For establishing the strategy there has to be a match between the business enterprise and its

environment. The strategy should be based on an understanding of the external and internal environment i.e. the organizational factors. A SWOT analysis i.e. an analysis of the strengths and weaknesses of the organization and opportunities and threats in the environment is an integral part of the strategic management process.

The business environment needs to be analysed and based on the analysis predictions should be made. Forecasting is difficult in the uncertain environment.as the acronym of VUCA indicates, today's business environment is characterized as volatile, uncertain, complex and ambiguous. In this type of business environment, forecasting is very difficult. However, if we cannot develop any idea about the future nature of the business environment, we shall not be in apposition to formulate the strategies.

We can make certain predictions about the future changes in the demographic environment based on an analysis of the current data on birth rate, death rate, couple protection rate, pattern of rural urban migration, literacy rate, dependence on agricultural income etc. Likewise based on the socio economic indicators we can make certain predictions about the future changes in the socio economic environment based on which strategies may be formulated by the business enterprises.



1.10 LET US SUM UP

In this unit we have discussed the following aspects–

- Business is an integral part of our society. To have a meaningful existence in the society, the business enterprises have to formulate strategies based on environmental scanning. Business environment comprises of several features which have a direct and indirect impact on business. These

factors are linked in such a way that they make a common ground to frame business strategies.

- Business organizations are expected to interact with the environment.
- In a global environment, a competitive situation is bound to exist in the market which is an essential characteristic of globalization. The current environment of business is stated to be volatile, uncertain, complex and ambiguous (VUCA).



1.11 FURTHER READING

1. Business Environment- Text and Cases; Francis Cherunilam; Himalaya Publishing House; Mumbai, 2014
2. Business Environment; Saroj Upadhyay; Asian Books Private Ltd. New Delhi, .2nd Edition, 2005
3. Business Environment; Pippa Riley; Viva Books; New Delhi, Ist Edition, 2011



1.12 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: A business enterprise has to take several decisions for its successful performance and sustaining its activities. 'Environment' means the surroundings, external objects, influences or circumstances under which someone or something exists. Environment includes both internal and external factors. Internal environment includes the organizational resources, financial, marketing and operational capability, the human resources and the image of the organisation.

Ans to Q2: The micro environment essentially comprises of factors based on a set of relations which are internal to the firm. This involves agents, intermediaries, suppliers, customers, market financers, competitors, etc. They have immediate influences on the business. Macro

environment implies the factors which have broad influences on business. The most important factors of macro environment are economic, governmental, legal, technological, geographical and social.



1.13 MODEL QUESTIONS

Q.1. What is Micro Environment?

Q.2. What is Macro Environment?

Q.3. What is meant by Business Environment?

Q.4. Describe how business can be classified.

Q.5. Discuss the various characteristics of Business

Q.6. Outline the difference between Micro Environment and Macro Environment.

Q.7. Discuss how an understanding of the environmental forces will help in developing efficiency in functioning of a business enterprise.

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UNIT 2: COMPOSITION AND SCOPE OF BUSINESS ENVIRONMENT

UNIT STRUCTURE

2.1 Learning Objectives
2.2 Introduction
2.3 External Environment
2.4 Economic Environment
2.5 Natural Environment
2.6 Political and Legal Environment
2.7 Socio-cultural Environment
2.8 Technological Environment
2.9 Demographic Environment
2.10 Let Us Sum Up
2.11 Answers to Check your Progress
2.12 Further Reading
2.13 Model Questions

2.1 LEARNING OBJECTIVES

After going through this unit, you will be able to

- discuss external environmental factors that influence business decision making
- learn economic environment, natural environment, political and legal environment influencing business decision making
- discuss the socio-cultural environment that influence business decision making
- describe how does technological environment and demographic environment influence business decision making

2.2 INTRODUCTION

Every business organization has to function in a business environment. The business enterprises do not function in isolation. They are susceptible to the trends and forces prevailing in a business environment.

For business decision making it is important to understand the business environment and its composition. Proactive managers while making business decisions need to closely monitor macro and micro trends relevant to the survival and growth of business enterprises. In this Unit we shall first understand the role of external environment in business decision making and then we shall try to understand the implications of economic, natural, political-legal, socio-cultural, technological and demographic components of business environment. This will help us to know about the composition of business environment and the scope it has in terms of influencing the business decision making and firm performance. We shall discuss in details the specific components of business environment in greater details in the later units of this business environment course. In this Unit, we shall have an overview only on the scope and composition of business environment.

2.3 EXTERNAL ENVIRONMENT

For the international organizations, the global business environment is quite important in terms of their efficient functioning. The business recession in Europe and the United States, the financial problems of Greece, upheavals in the major stock markets in the world, rising worldwide inflation, increasing number of business scandals, increasing number of cases of public activism are all important aspects of business environment which the business enterprises cannot ignore. The collapse of Soviet Union adversely affected the export of Indian tea to the Russian market. Likewise, the major trends in the domestic environment of the national companies affect the functioning of the business enterprises at national environment. The increasing per capita income of the Indian consumers has influenced the demand for tea in the domestic market. Similarly, the increasing preference of the young population for soft drinks has impacted the demand for tea. To arrest the fall in demand, the Tea Board had to launch special campaigns for boosting of the demand for tea.

Demonetization decisions of Government of India influenced all the business enterprises of India. There was a cash crunch which significantly impacted the purchasing power of Indian consumers. After the

demonetization in 2016, the Indian consumers lessened and postponed purchases temporarily. All these examples indicate how can external environment influence the functioning of business enterprises. Because of this influence, the business enterprises must monitor the major forces in the broad environment like the demographic, economic, socio-cultural, political-legal, natural and technological environment. In the subsequent sections, we shall discuss the specific components of business environments and their influence in the functioning of business enterprises.

2.4 ECONOMIC ENVIRONMENT

The performance of the business enterprises in a given business and economic environment depends to a great extent on the available purchasing power. The purchasing power is influenced by income, prices, savings, debt, credit availability etc. All these are important components of economic environment. The monetary and fiscal policies as we shall discuss in Unit 11 and Unit 12 can strongly influence the business enterprises. The inflationary trend in the economy, high interest rate making business credit expensive are all important for the business performance of the enterprises. In an inflationary business environment, consumers become deal prone and bargain for better deals. They buy in bulk or economy packs. They may postpone the discretionary purchases. But in case of a recessionary environment, consumers simplify the consumption patterns and they tighten their belts. The middle class has different responses to the forces in the economic environment. The very poor people and the ultra-rich customers may not be affected the same way as the middle class may be affected by the major trends in the economic environment.

The countries in the world can be categorized into the following based on income-distribution patterns

i. Very low incomes
ii. Mostly low incomes
iii. Very low, very high incomes
iv. Low, medium and high incomes
v. Mostly medium incomes.

The markets of the countries in the first two categories will be very small. The high end business enterprises may not be found there. Portugal is one of the poorer countries in Western Europe. But the country has enough wealthy families to afford expensive cars. India is a country which is known for BPL population. The low priced sachets of shampoo can appeal this category of population. India is also known for the explosion in its middle class which has created demand for a large number of products. The same country can afford to have exclusive outlets of major global lifestyle brands. The metros of the country have a significant number of crorepatis and billionaires.

Some of the countries are known for export of raw material like Congo for copper and Saudi arabia for oil. Germany is known as an industrial economy and India is known as an industrializing economy. In some countries like Mauritius and Singapore, tourism plays a very important role in their economies. In USA, service sector plays a determining role in the economy. The business enterprises are influenced by the major forces in the economic environment. All these have implications for demand in housing, automotive, consumer durables and consumer non-durable segments.



CHECK YOUR PROGRESS

Q.1 : What are the characteristics of an economy having inflationary trend?

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2.5 NATURAL ENVIRONMENT

Natural resources are quite limited. For example, oil, a nonrenewable resource, is finite. It has created serious problems for world economy. There have been ups and downs in oil pricing. The world needs to search for practical means to harness solar, nuclear, wind and other alternative energies. This poses tremendous business opportunities for the business enterprises. At the same time, the oil marketing companies have to face a lot of pressures for the fluctuations in prices.

All over the world, industrial activities are creating environmental degradation and damaging the natural environment. The public activists are creating pressures for protection of natural environment. Because of this, there are opportunities for enterprises providing solutions for pollution control.

Let us take the example of electric vehicles. Energy crisis has been a worldwide problem. Shortage of fossil fuels has forced rethinking on transportation modes. Tougher emission norms by 2020 will make diesel and petrol engines pricier and nonpolluting electric vehicles attractive. Mahindra Electric is pushing firms like Bigbasket and Ola to use electric vehicles as part of their fleet with the promise of better economies. A stable and consistent long term policy on public transport programme may push the sale of environmental friendly electric vehicles.

2.6 POLITICAL AND LEGAL ENVIRONMENT

The political and legal environment consists of laws, government agencies and pressure groups that influence various organizations and individuals. In the previous section, we have discussed that laws for curbing pollution creates business opportunities for firms specialized in designing environmentally friendly products. Mandatory recycling laws may boost the recycling industry. This may facilitate new enterprises making new products from recycled materials.

Business laws are required to protect companies from unfair competition and unfair business practices. Business laws are essential for protection of consumers and employees also. The business enterprises have to comply with all the legal provisions.

More and more transactions are taking place in the cyberspace. This requires new laws. The business enterprises must establish new ways to do business ethically.

The European Commission has established new laws covering competitive behavior, product standards, commercial transactions for the member nations of European Union. Norway bans several forms of sales promotion like contests and premiums as unfair.

Another emerging trend in the political-legal environment is the growth of special interest groups. NGOs lobby government officials and corporate executives to respect the rights of consumers, women, senior citizens, minorities etc.

In India, conducting fair elections is a problem. The Election Commission is contemplating measures on curbing paid news. According to one view, paid news should be criminalized. Black money in politics should come to an end. There should be total transparency in funding of political parties and their expenditure. Money donated by corporate houses and received by political parties should be in public domain. Strong measures from Government and Election Commission and lobbying by public activists may lead towards heavy reforms in conducting election processes and managing the political affairs. All these may significantly influence the composition of business environment in India.



CHECK YOUR PROGRESS

Q.1 : What could be the new business opportunities for changes in laws?

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2.7 SOCIO-CULTURAL ENVIRONMENT

Every society contains cultures and sub cultures. These indicate shared values, beliefs, preferences and behaviors emerging from special life experiences or life circumstances. Business opportunities exist because of trends in fashion, music, entertainment etc. Frito Lays which draws its sales from teens, has also experience increased consumption from grown-ups also. The teen agers become grown-ups and they may carry the old habits also. Campaigns emphasizing not to mix drinking with driving, saying no to plastics etc. emphasize certain values in society. As far as India is considered, it may be generalized that Indians are consumption oriented. They spend more on social functions, family functions and marriages. They are highly influenced by films and cricket. As regards socio-cultural values,

most of the Indians still believe in working, getting married, staying happy, donating for charity and being emphatic to others. These are core beliefs which are passed from parents and society. The social institutions like schools, colleges, religious institutions etc. shape the socio-cultural values. We can see the reflection of these socio-cultural values in the advertisement copies of the products of business firms.

2.8 TECHNOLOGICAL ENVIRONMENT

In Unit 10 of this course on Business Environment, we shall discuss the forces in the technological environment of business.

We know that televisions affected the demand for newspapers. Advent of Internet has affected the demand of both. The days have changed a lot because of technology. More specially in the last two decades, the Information Technology and the enabled services of IT has changed the landscape of the functioning of business enterprises.

Because of technology product life cycles are shorter now. The time between idea and implementation is shrinking. When the old industries fight or ignore new technologies, their business decline. They have to remain competitive and technologically alert. In the new age business environment, the business firms are expected to invest a lot in research and development. Major new technologies stimulate the growth of an economy. The business firms have to look for opportunities for minor innovations too in an efficient manner.

As we all know lots of developments are taking place in the areas of telecommunications, bio technology, robotics, computers, design etc. HMT could not withstand tremendous competition from Titan because of design and technology. The 'time keeper of the nation' had to pave ways for the new entrant in the wrist watch market. The quark technology was well embraced by the customers.

Oslo is the world's capital of electric vehicles. It has the highest per capita of electric vehicles. By 2025, it expects 100 per cent of its new car sales to come from zero emission vehicles. Pollution concerns and energy security have pushed China to nurture the electric vehicles industry. This is likely to create new jobs and boost export. In India also, as we have discussed

earlier, policy support, cheaper batteries and better range of vehicles supported by good infrastructure and R&D will drive the growth of nonpolluting vehicles. Once it is developed, there will be economies of scale and it will attract development of technology.

2.9 DEMOGRAPHIC ENVIRONMENT

Compared to technological environmental trends, the demographic developments often take place at a predictable pace. The changes are not that abrupt. There could be abruptions because of some natural calamities, crises or disasters. Otherwise, the demographic trends are more or less predictable. We are experiencing a worldwide growth in population. Earth's population totaled 6.8 billion in 2010 and will exceed 9 billion by 2040. Pressure of population on the earth is increasing at an alarming rate.

Country wide variations are there. For example, India is having a population of about 1.7 billion whereas Maldives has a population of 3 lakhs only. India and Mexico have a very young population. The growth of population in these two countries is rapid. Italy and Austria are countries known for having ageing populations. Milk, baby products, diapers, school uniforms, toys etc. will be sold more in Mexico than Italy.

Increasing number of working women is another important trend in demographic trend. This facilitates development of kids' care, crèches and schooling. A number of chains has developed to take care of the children whose parents are working. Likewise, we may observe another demographic trend of migration- rural to urban. Reverse migration is also there, but at an insignificant level. Demographic trends may be observed in the work force of India. The dependence on agriculture has reduced. More numbers of working population can now be observed in industrial and service sector.

Ethnic and racial diversity varies across countries. In Japan, everyone is Japanese. But in case of USA, more than 9 per cent of the population were born in some other countries. India has a diverse population in terms of religion. As per 2001 Census, Hindus comprise about 80 per cent of the population. Muslims comprise about 13 per cent, Christians 2.3 per cent, Sikhs 1.9 per cent, 0.8 per cent Buddhists, 0.4 per cent Jains and

0.6 per cent other religions. Religious festivals pertaining to different religions provide different opportunities for business. The business opportunities will be different for different business firms depending on the business environments they belong to.



2.10 LET US SUM UP

The following aspects have been discussed in this unit–

- The business enterprises are susceptible to the trends and forces prevailing in a business environment. For business decision making they need to understand the business environment and its composition.
- The role of external environment in business decision making and the implications of economic, natural, political-legal, socio-cultural, technological and demographic components of business environment.
- There are variations in business environments across countries like Mexico, Italy, India etc. in respect of the differences in socio-cultural, technological, demographic environment.
- As regards demographic and natural environment we have discussed the world wide concern in the areas of environmental degradation and population growth.



2.11 FURTHER READING

1. Cherunilam Francis. International Business- Text and Cases (Fifth Edition). PHI Learning Private Limited, New Delhi. (2010)
2. Kotler Philip, Keller Kevin Lane, Koshy Abraham and Jha Mithileshwar; Marketing Management;14th Edition; Pearson Education, New Delhi, 2013
3. Plug in Spark Up and Paid news should be a crime; The economics Times, March 05-11,2017



2.12 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: In an economy where inflationary trend is prevalent there could be high interest rate which makes business credit expensive. In an inflationary business environment, consumers become deal prone and bargain for better deals. They buy in bulk or economy packs. They may postpone the discretionary purchases.

Ans to Q2: There could be new business opportunities for changes in laws. For example, stringent legislations for environmental protection create business opportunities for firms specialized in curbing environmental degradation and facilitating promotion of environment. Likewise, a legislation on forcing recycling will help business enterprises specialized in launching new products from recycled materials.



2.13 MODEL QUESTIONS

Q.1. How does external environment influence business decision making?

Q.2. How does economic environment influence business decision making?

Q.3. How does natural environment influence business decision making?

Q.4. How does political and legal environment influence business decision making?

Q.5. How does socio-cultural environment influence business decision making?

Q.6. How does technological environment influence business decision making?

Q.7. How does demographic environment influence business decision making?

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UNIT 3: SOCIAL RESPONSIBILITY OF BUSINESS AND CORPORATE GOVERNANCE

UNIT STRUCTURE

3.1 Learning Objectives
3.2 Introduction
3.3 Social Orientation of Business
3.4 Factors affecting Social Orientation
3.5 Corporate Social Resposibility (CSR)
3.6 Social Audit
3.7 Meaning of Corporate Governance
3.8 Importance of Corporate Governance
3.9 Regulatory and Voluntary Actions
3.10 Legal Environment of Corporate Governance in India
3.11 Let Us Sum Up
3.12 Answers to Check Your Progress
3.13 Further Reading
3.14 Model Questions

3.1 LEARNING OBJECTIVES

After going through this unit, you will be able to

- discuss the social orientation of business and the factors affecting it
- learn the concept of social responsibility of business
- learn the concept of social audit
- define the concept of corporate governance
- know the various benefits of good corporate governance
- know the regulatory aspects of CSR and corporate governance

3.2 INTRODUCTION

Social environment consists of the sum total of a society's beliefs, customs, practices and behaviours. Every society constructs its own social

environment. Business houses often aim at responding to social values through the use of marketing, advertising and targeted public relation strategies. Broader social values also affect the success of a business. Social responsibility entails developing businesses with a positive relationship to the society in which they operate. Social responsibility tends to boost company morale. Moreover, the way the management processes are conducted is also important. In this unit, we shall discuss the aspects of social orientation, social responsibilities of business, social audit and corporate governance.

3.3 SOCIAL ORIENTATION OF BUSINESS

Society shapes the beliefs, values and norms that largely define consumer tastes and preferences. People absorb almost unconsciously, a world view that defines relationships to themselves, to others, to organizations, to society, to nature and to the universe. India is a land of diversities which is reflected not just in the topography but also in the languages, cultures, as well as religious beliefs. There is a constant intervening life of culture and sub-cultures. The differences in languages, customs social systems, values, habits, religions and caste system make the socio cultural environment.

Business environment is sum of all external and internal factors that influence a business. External factors embrace political factors, macroeconomic and microeconomic factors, social factors and technological factors etc. Internal factors of business environment are controllable factors that include organizational culture, values, beliefs and customs. Social environment of a business includes all the factors that affect a business socially. The social environment of a business can be integral to a company's success or failure.

Social factors are related to general society and social relations that affect business. It includes social movements such as environmental movements as well as changes in fashion and consumer preferences. Social environment consists of the sum total of a society's beliefs, customs, practices and behaviours. Some of the customs, beliefs, practices and

behaviours are similar across cultures and some are not. Every business must adapt to its social environment otherwise company sales will drop and it will not survive. For example, a social movement led to outlawing of alcohol in the early 20th century. However, along with risks in social change there are opportunities. Business houses often aim at responding to social values through the use of marketing, advertising and targeted public relation strategies. Broader social values also affect the success of a business. A society that values higher education will provide a better workforce that will lead to more productivity and innovation. Business need to operate as a cohesive unit so that they can build a strong and productive organizational culture. It is also important to ensure that the culture is stable and positive. Thus, a business should carefully monitor the relations between its members to detect any hostility or other dysfunction that need to be corrected.

There is no doubt that the society is continually changing. The changing tastes and fashions are a great example of this changing trend. One of the most significant differences is the growing popularity of social media. Social networking sites like Facebook, twitter have become very popular among the younger people. The young consumers have grown being used to mobile phones and computers. Young generations get easily and deeply influenced by comments on social media among friends, relatives, colleagues and close associates. The business organizations should watch the happenings in the social online media. Some of the business houses have their online presence in social media.

3.4 FACTORS AFFECTING SOCIAL ORIENTATION

It was used to be said that the business of business is business itself. In 1970, just after the first major wave of the business ethics movement in the US, the Nobel Prize winning economist Milton Friedman published an article that has since become a classic text questioning the alleged social role of corporations. Under the provocative title "The social responsibility of business is to increase its profits", he vigorously protested against the notion of social responsibilities for corporations. He based his argument on three main premises:

i) Only human beings have a moral responsibility for their actions.

ii) It is managers' responsibility to act solely in the interest of shareholders.

iii) Social issues and problems are the proper province of the state rather than corporate managers.

Milton Friedman has gone on record saying that social responsibility in business is a dangerous concept. Business is for profit. Social responsibility is the business of government, politicians, and bureaucrats. Galbraith also has been a very severe critic of business. In his book, "Affluent Society" he has discussed the damage that business can cause to society. These views need to be seen in the context of trusteeship. Indian culture laid down the principles of trusteeship for the business wherein one holds a post or owns business as a trustee. Gandhiji was ahead of others in this respect. Gandhiji was for relevant technology. Leadership for him was not a charisma. It was a duty; opportunity to serve - Shrestha Dharma. Corporate leaders can subscribe to the beliefs of Shreshtha Dharma by being socially responsive.

Sixty-three per cent of the capital of Tata Sons Ltd. is held by trusts for philanthropic purposes, and it is normally held that the funds of this trust are effectively used for a variety of purposes, from health to education to building infrastructural facilities. There is no doubt that in a country like India, corporate philanthropy has a significant place. At its best, it is about the corporate sector reaching out to the society so as to benefit the society and environment in which it functions.

3.5 CORPORATE SOCIAL RESPONSIBILITY (CSR)

Every business enterprise has some moral and social responsibilities towards the society so as to maintain a balance between the economy and the ecosystems. It pertains not only to business organizations but also to everyone whose action impacts the environment. This responsibility can be

passive, by avoiding being engaged in socially harmful acts or it can be active by performing activities that directly advance social goals. Corporate Social Responsibility (CSR) is one management strategy where companies try to create a positive impact on society while doing business.

Corporate Social Responsibility(CSR) has been defined by **Lord Holme and Richard Watts** in a publication of the World Business Council for Sustainable Development : "It is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large." From this definition the following can be inferred.

i. It is continuing commitment of business
ii. It calls for behaving in an ethical manner
iii. It calls for contributing to economic development
iv. It aims at improving the quality of life of employees and their families
v. It calls for contribution towards wellbeing of local community and society as a whole

Social responsibility entails developing businesses with a positive relationship to the society in which they operate. Social responsibility tends to boost company morale, but this is especially true when a company and its employees are actively engaged in the social cause they're taking on.

The various parties to whom the business discharges its social responsibility are discussed below-

a) Customers: It is the duty of every business to provide good quality products and services to its customers as and when demanded. Customers are the king of market and their satisfaction is of utmost significance to the business. Customers' likes, dislikes, complaints and demand must be studied and goods should be provided according to their requirements. Moreover, customers should not be befooled and cheated by quoting unreasonable prices. They should be offered discounts,

premiums and rebates occasionally without being involved in unfair trade practices.

b) **Creditors:** A businessman is also responsible to its creditors. It must pay its debts timely and try to maintain good relations with them. Creditors are also doing business with their hard earned money. They extend credit on business interest only. Their requirements should be complied with for mutual benefits.

c) **Employees:** Another party to whom the business has social responsibility is towards its employees. Employees are the true assets of a company and they must be taken care of by the management. Responsibility of business towards employees can be discharged in the form of training, promotion, proper selection, fair wages, safety, health, workers' education, participation in management etc. Employees should be taken into confidence while taking decisions affecting their interests. In addition to timely and good amount of salary and good working conditions for employees, there should be scope for self-advancement, recognition and responsibility.

d) **Shareholders:** Business houses also discharge responsibility towards its shareholders. Shareholders are the true owners of a company and must be provided with timely and adequate amount of yearly dividends. They should also be informed about company's growth, recent developments, future plans and key management issues.

e) **Society:** A good businessman also feels socially responsible to deliver its services to the society where it operates. Business houses also practice social responsibility by donating to national and local charities like for construction of roads, bridges, dams, schools, colleges, hospitals, religious places etc. Whether it involves giving money or time, businesses have a lot of resources that can benefit charities and local community programs.

f) **Government:** Last but not the least, business delivers its social responsibility to government by payment of taxes on time,

adhering to rules and regulations framed by govt. from time to time, adopting various pollution standards, adopting and implementing govt. measures in relation to industrial setting etc.

g) **Environment:** Every business entity should protect the environment which can be done in different ways like preservation of natural resources, minimum wastage of resources etc. As natural resources are scarce so they should be used carefully by a businessman. Appropriate steps should be adopted to prevent environmental pollution and to restore ecological balance. Industrial waste should be disposed of carefully or if possible may be recycled to minimize pollution. The toxic wastes, excessive noise, chemical pesticides, automobile exhaust etc. need to be checked periodically.



CHECK YOUR PROGRESS

Q.1 : State true or false

a. Changes indicate risks for the business enterprises.

b. Religion is a social component of social environment that affects the functioning of business.

c. CSR stands for corporate social responsiveness.

d. Charging reasonable prices and offering quality products to customers is a social responsibility of business.

Q.2: How can a business enterprise discharge its responsibilities to its employees?

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Q.3: How can a business enterprise discharge its responsibilities to its shareholders?

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Being socially responsible means people in the organizations and organizations themselves must behave ethically and with sensitivity towards social, cultural, economic and environmental issues. Striving for social responsibility helps individuals, organizations and governments to have a positive impact on development of society. Evidences indicate that being socially responsible helps in positive contribution to bottom-line performance also. This means by being socially responsible, business enterprises can be more profitable.

3.6 SOCIAL AUDIT

A social audit is an official evaluation of an organization's involvement in social responsibility projects or endeavors. For example, a local family store makes a clothing donation to a local orphanage that has a homeless shelter for children. The store makes a similar donation three times a year. This is something that a social audit might uncover. Factors examined by a social audit include records of charitable contributions, volunteer events, efficient utilization of energy, transparency, work environment, and employees' wages.

A social audit is a way of measuring, understanding, reporting and ultimately improving an organization's social and ethical performance. Social audit is a process of reviewing official records and determining whether state reported expenditures reflect the actual money spent on the ground. A social audit looks at factors such as a company's record of charitable giving, volunteer activity, energy use, transparency, work environment and worker pay.

Many believe that social audits are an imposition on organizations to divulge some information that they want to keep internal. Others believe that social contributions should be left to the social conscience of the organizational leaders. However, the advantages outweigh the disadvantages. Advantages of social audits include the following:

- Helping the community with planning
- Supporting democracy in the local community
- Promoting community involvement
- Benefiting individuals and families that are poor or disadvantaged
- Promoting decision-making as a community and the sharing of the responsibilities
- Assisting with human resources growth and development
- Enhancing the company's image in the eyes of the public

3.7 MEANING OF CORPORATE GOVERNANCE

Corporate governance includes the processes through which corporations' objectives are set and pursued in the context of the social, regulatory and market environment. Corporate governance broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed. Governance structures and principles identify the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and include the rules and procedures for making decisions in corporate affairs. Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

Corporate Governance is the interaction between various participants (shareholders, board of directors, and company's management) in shaping corporation's performance and the way it is proceeding towards. The relationship between the owners and the managers in an organization must be healthy and there should be no conflict between the two. The owners must see that individual's actual performance is according to the standard

performance. These dimensions of corporate governance should not be overlooked. Corporate Governance ensures transparency which leads to strong and balanced economic development. It aims at safeguarding the interests of all shareholders (majority as well as minority shareholders). It is important that shareholders fully exercise their rights and that the organization fully recognizes the rights of shareholders.

Corporate Governance has a broad scope. It includes both social and institutional aspects. Corporate Governance encourages a trustworthy, moral, as well as ethical environment.

3.8 IMPORTANCE OF CORPORATE GOVERNANCE

The benefits of good corporate governance are listed below-

1. Good corporate governance ensures corporate success and economic growth. Because it complies with the requirements of law. Unlawful practices have long term negative consequences.
2. Strong corporate governance maintains investors' confidence, as a result of which company can raise capital efficiently and effectively. The investors feel secure to invest in companies adopting legally sound governance practices.
3. It lowers the capital cost. Because of good practices it can attract easy investment and thereby reduces the cost of capital.
4. It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organization.
5. Good corporate governance also minimizes wastages, corruption, risks and mismanagement.
6. It helps in development of brand image. When the organization earns the reputation of being socially responsive, the brands of the organization can also earn the confidence of customers. The brand image also gets developed.

Hence, corporate governance is concerned with holding the balance between economic and social goals and between individual and community goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of the resources. Good governance is an essential ingredient in corporate success and sustainable economic growth. Corporate governance includes the laws and customs affecting that direction, as well as the goals for which the corporation is governed. The principal participants are the shareholders, management and the board of directors. Other participants include regulators, employees, suppliers, partners, customers, constituents (for elected bodies) and the general community.



CHECK YOUR PROGRESS

Q.1 : Fill up the blank

a. Corporate governance is concerned with holding the balance between economic and ------ --------- goals.

b. Good corporate governance lowers the cost of ------.

Q.4: State two benefits of corporate governance

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3.9 REGULATION AND VOLUNTARY ACTION

All too often one is told that CSR is about obeying the law. Obeying the law is a necessary but not a sufficient condition for practicing CSR. Jamsetji Tata made that clear decades ago when he said that even if after adherence to the law one does not feel quite correct, then it is necessary to raise our standards even higher. Tatas have been the traditional pacesetter in this regard. Their efforts for the advancement of the township of Jamshedpur are well known. They introduced the eight hour working shift, 36 years before it became law in India.

In recent years, new ideas have emerged. A corporation is a part of a society. It exists because the society is willing to pay a value for the services or the goods that corporates offer. As it has been discussed, the views regarding CSR are juxtaposed. According to one, CSR is essential for business and social sustainability. According to another view, CSR is unaffordable or irrelevant in the current economic environment. It has often been argued that profits are the chief purpose of business. As it has been stated famed economist Milton Friedman summarized this argument. Moreover, he asserted that companies that pursued other mission would be less competitive and thus would provide fewer benefits to their owners, employees and society. Profits do matter. But good firms deliver far more than just profits for their owners. They bring innovations to the market, which in turn provide economic growth, employment and enrich people's lives. Michael Porter has written about the concept of "shared value" for companies, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges. He suggests that companies should take the lead of bringing business and society back together. This is a new principle in management theory that calls for rigorous study.

Until recently, words like love, joy, authenticity, empathy, soulfulness and other terms of endearment did not have place in business. Today a growing number of Firms of Endearment (FoE) embrace such terms. Firms of Endearment are loved as they have 'hearts'. They take care of the interests of stakeholders strategically. These firms meet the tangible and intangible needs of the stakeholders through affection and loyalty to the company. They adopt a different kind of Stakeholder Relationship Model. These companies create value by aligning stakeholders' interests with a long term perspective of organic growth through endearment.

Conscious capitalism is another evolving paradigm for business that simultaneously creates multiple kinds of value and well-being for all stakeholders: financial, intellectual, physical, ecological, social, cultural, emotional, ethical and even spiritual. Conscious capitalism is a new operating system for business to work in greater harmony with the emerging trends and changes.

Management does have legal and fiduciary responsibility to maximize long-term shareholder value. However, the best way to maximize long term shareholder value is to simultaneously optimize value for all the major constituents for their interdependence. When businesses have a purpose beyond maximizing profits, this purpose is often expressed in the business mission. For example, Whole Foods Market's purposes include making profits and also creating value for all the major constituencies.

3.10 LEGAL ENVIRONMENT OF CORPORATE GOVERNANCE IN INDIA

India is looking for more managers who can tackle environmental problems, social and human rights issues, developmental issues and CSR. Managers are now required to enter a business environment wherein companies are more accountable to CSR. Under the new Companies Act 2013, all profitable Companies with a sizeable business would have to spend every year, at least 2 per cent of three-year average profit on CSR projects.

The Ministry of Corporate Affairs has set up a National Foundation for Corporate Governance (NFCG) as a not for profit trust. It provides a platform to deliberate issues relating to good corporate governance practices and to facilitate exchange of experiences and ideas between corporate leaders, policy makers, regulators, law enforcing agencies and NGOs.

The Bureau of Indian Standards (BIS) took the initiative in 2006 to develop Indian Certification System on CSR. CRISIL has also launched its Environment, Social and Governance (ESG) index which measures company performance on voluntary disclosure on governance and environmental issues rather than financial performance. Voluntary actions do not represent the entire picture. The CSR practices in India were detailed by guidelines notified by the Ministry of Corporate Affairs in December 2009. These guidelines require business entities to formulate a CSR Policy to guide its strategic planning and a roadmap for its CSR initiatives. Prior

to this, India had the Companies Act, 1956 that had nothing in particular on CSR until the Companies Bill 2009, the Child Labor Act, 1986 and Environment Protection Act, 1986 brought in new requirements. The government regulations exist but there is absence of monitoring the enforcement of these regulations on the part of Government. Because of loose monitoring of Government regulations, there exists scope for different kinds of compliance to the Government regulations by the organizations. This is resulting in inconsistent and not having the socially responsive behavior of organizations in the desired manner.



3.11 LET US SUM UP

The following aspects have been discussed in this unit–

- Every business must adapt to its social environment. Social environment of a business includes all the factors that affect a business socially.
- The social environment of a business can be integral to a company's success or failure.
- Every business enterprise has some moral and social responsibilities towards the society. It pertains not only to business organizations but also to everyone whose actions impacts the environment.
- Corporate governance is concerned with holding the balance between economic and social goals and between individual and community goals.
- Good governance is an essential ingredient in corporate success and sustainable economic growth.



3.12 FURTHER READING

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2. Business Environment; Saroj Upadhyay; Asian Books Private Ltd. New Delhi, 2nd Edition, 2005

3. Corporate Governance, Ethics and Social Responsibility- second edition by V. Balachandran and V. Chandrasekaran.
4. Corporate Governance and Social Responsibility by Jain, Jain and Vashisht, Rbsa Publishers



3.13 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: a. Changes indicate risks for the business enterprises. (false)

b. Religion is a social component of social environment that affects the functioning of business. (false)

c. CSR stands for corporate social responsiveness. (false)

d. Charging reasonable prices and offering quality products to customers is a social responsibility of business. (true)

Ans to Q2: Business has social responsibility towards its employees. Employees are the true assets of a company and they must be taken care of by the management. Responsibility of business towards employees can be discharged in the form of training, promotion, proper selection, fair wages, safety, health, workers' education, participation in management etc. Employees should be taken into confidence while taking decisions affecting their interests. In addition to timely and good amount of salary and good working conditions for employees, there should be scope for self-advancement, recognition and responsibility.

Ans to Q3: Business houses need to discharge responsibility towards its shareholders. Shareholders are the true owners of a company and must be provided with timely and adequate amount of yearly dividends. They should also be informed about company's growth, recent developments, future plans and key management issues.

Ans to Q4: a. social

b. capital

Ans to Q5: Two benefits of corporate governance are as follows

a. It lowers the capital cost. Because of good practices it can attract easy investment and thereby reduces the cost of capital.

b. It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organization.



3.14 MODEL QUESTIONS

Q.1. Define social environment of a business.

Q.2. Briefly discuss the various factors affecting the social environment of business.

Q.3. What is meant by corporate governance?

Q.4. State the advantages of good corporate governance.

Q.5. Should the business be socially responsive? Comment.

Q.6. Discuss the various parties to whom the business is socially responsible.

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UNIT 4: INDUSTRIAL POLICIES

UNIT STRUCTURE

4.1 Learning Objectives

4.2 Introduction

4.3 Meaning of Developed Economy and Mixed Economic System

4.4 Concept of Economic Reforms

4.5 Evolution of Industrial Policy in India

4.6 Industrial Policy Resolution up to 1991

4.7 New Industrial Policy 1991

4.8 Evaluation of the New Industrial Policy 1991

4.9 Meaning of Privatization

4.10 Meaning of Disinvestment

4.11 Insurance Regulatory and Development Authority (IRDA)

4.12 Let Us Sum Up

4.13 Answers to Check Your Progress

4.14 Further Reading

4.15 Model Questions

4.1 LEARNING OBJECTIVES

After going through this unit you will be able to

- explain the meaning of developed economy
- discuss the meaning of mixed economic system and economic reforms
- outline the evolution of Industrial Policy in India
- outline the Industrial Policy Resolutions, 1948 to 1991
- analyse the features of New Industrial Policy 1991
- discuss the meaning of privatization and its advantages and disadvantages
- explain the meaning of disinvestment and its objectives
- discuss about the Insurance Regulatory and Development Authority (IRDA)

4.2 INTRODUCTION

After independence, India adopted a mixed economy policy in which both public sector and private sector had to play a role. Till 1991, more or less there was uniformity in the plans and policies in India. The 8th Five Year Plan adopted some strong measures regarding discontinuation of some centrally sponsored schemes. After 1991, when the country adopted measures for economic reforms, there have been lot of changes in economic policies and basic character of the economy. In this unit we shall discuss the industrial policies, their evolution and the new changes.

4.3 MEANING OF DEVELOPED ECONOMY AND MIXED ECONOMIC SYSTEM

Meaning of Developed Economy:

While there is no single definition of the term "developed economy", it typically refers to a country with a relatively high level of economic growth and security. Some of the most common criteria for evaluating a country's degree of development are per capita income or gross domestic product (GDP), level of industrialization, general standard of living and infrastructural facilities. Increasingly other non-economic factors are included in evaluating an economy or country's degree of development, such as the Human Development Index (HDI) which reflects relative degrees of education, literacy and health. The most well-known current examples of developed countries include the United States, Canada and most of the countries of Western Europe, including England and France.

Terms such as "emerging countries," "third world countries" and "developing countries," are commonly used to refer to countries that do not enjoy the same level of economic security, industrialization and growth as developed countries. The United Nations Conference on Trade and Development (UNCTAD) points out that the least developed of the developing countries are "deemed highly disadvantaged in their development process - many of them for geographical reasons - and they face more than other countries the risk of failing to come out of poverty."

Mixed Economic System:

In a mixed economy, there is a compromise between the pure capitalistic and socialistic economic principles. This sort of compromise has led to the growth of both public and private sectors simultaneously. The Indian economy is a mixed economy because there is the co-existence of the public and private sectors along with the expanding activities of economic planning in Indian economy since independence. Thus, the distinct features of the Indian economy being a mixed economy are as follows:

- Co-existence of public and private Sectors
- Role of market mechanism
- Public sector participation in heavy industries
- Government control and regulation of private sector
- Economic planning
- Control of monopoly
- Reduction of economic inequalities

4.4 CONCEPT OF ECONOMIC REFORMS

Economic reforms broadly indicate structural adjustments of a country to the trends and events in the global environment. While making such adjustments, it requires, firstly, reduction of country's spending to the level parallel to its income and thereby reducing its fiscal deficit considerably. Secondly, it requires market oriented structural change in order to make the economy more efficient and flexible and also for using both domestic and external resources in a most appropriate manner. These require gradual reduction of import restrictions and also elimination of export restrictions. The country needs to liberalize its economy.

The process of economic reforms was started by the Government of India in 1991 for taking the country out of economic difficulty and speeding up the development of the country. The centre of economic reforms has been liberalisation, privatisation and globalisation (LPG),which are explained as follows:

Liberalisation: Liberalisation means to unshackle the economy from bureaucratic cobweb to make it more competitive. Following are its chief features:

a) To do away with the necessity of having a license for most of the industries
b) Freedom in determining the scale of business activities
c) Removing restrictions for the movement of goods and services from one place to another
d) Freedom to fix the prices of goods and services
e) Reduction in the rate of taxes
f) Freedom from unnecessary control over economy
g) Simplifying import-export procedure
h) Simplifying the process of attracting foreign capital and technology.

Privatisation: Privatization means the following:

a) The transfer of ownership of property or businesses from a government to a privately owned entity.
b) The transition from a publicly traded and owned company to a company which is privately owned and no longer trades publicly on a stock exchange.

Globalisation : Globalisation means integrating the economy with the rest of the world. Following are its chief features:

a) Free flow of goods and services in all the countries
b) Free flow of capital in all the countries
c) Free flow of information and technology in all the countries
d) Uniformity of conflict-solving techniques in all the countries.

4.5 EVOLUTION OF INDUSTRIAL POLICY IN INDIA

During the pre-British period,India was an industrially developed country. But, with the advent of British rule in India all these industries faced threats from British rulers. Industrial revolution in England and the trade policy followed by the British rulers offered a huge blow to the tradition bound

Indian industries. Thus, at the time of independence, industrial base in India was very weak.

India possesses a huge reserve of natural resources but inspite of that the country could not develop a sound industrial sector which could contribute a good portion to its national product. During the 200 years of British rule, no serious efforts were made by the Britishers to develop industries especially basic and heavy industries. During the mid-19th century, tea, jute, textile and coal industries were mostly developed in India by the British rulers with the help of British industrialists.

In the post-independence era, i.e. on 6th April, 1948, the Government of India adopted the Industrial Policy Resolutions for accelerating the industrial development of the country. Industrial policy is a comprehensive package of policy measures which covers various issues connected with different industrial enterprises of the country. This policy is essential for devising various procedures, principles, rules and regulations for controlling industrial enterprises of the country. In the following sections we are discussing industrial policy resolutions from 1948 onwards.

4.6 INDUSTRIAL POLICY RESOLUTIONS IN INDIA UPTO 1991

4.6.1 Industrial Policy Resolution, 1948

The Industrial Policy Resolution of 1948contemplated a mixed economy which included both the public and private sectors on the industrial front. Accordingly, the Indian industries were divided into four broad categories:

a) **Exclusive Government Monopoly**-This includes the manufacture of arms and ammunition, production and control of atomic energy and the ownership and management of railway transport. These industries were under the exclusive control of the Central Government.

b) **Government Monopoly for New Units**-This category included coal, iron and steel, aircraft manufacture, ship building,

manufacture of telephone, telegraphs and wireless apparatus (excluding radio receiving sets) and mineral oils. New undertakings in this category could be undertaken by the State only, although the existing units of such industries would continue to be run by private sector.

c) **Regulation-**This category included 20 important large scale and basic industries like machine tools, chemicals, fertilizers, non-ferrous metals, rubber manufactures, cement, paper, newsprint, automobiles, electric engineering etc. which were kept reserved for the time being to the private sector although the state reserved the right to plan, regulate and control as and when necessary.

d) **Unregulated private enterprise-**The industries in this category were left open to the private sector, individuals as well as cooperatives.

Thus, the main thrust of the 1948 Industrial Policy was to lay the foundation of a mixed economy where both the private and public enterprises were to be given importance and work together to develop the economy to accelerate the pace of industrial development.

4.6.2 Industrial Policy Resolution, 1956

This was meant to give a concrete shape to the mixed economy model and the ideology of socialist pattern of society. Following are some of the important provisions of 1956 policy:

1. **New Classification of Industries:** The Industrial Policy Resolution of 1956 classified the entire industrial sector in three Schedules:

   a) Schedule A: In the first category, those industries were included whose future development was the exclusive responsibility of the State. Seventeen industries were included in this category. This included heavy and strategic industries such as defence equipment; atomic energy; heavy plant, machineries, castings and forgoing of iron and steel and some other important industries.

b) Schedule B: In this category those industries were included which were progressively State- owned and in which the private enterprises would be expected only to supplement the efforts of the State. In this category 12 industries were included like aluminium, fertilizers, chemical industry, antibiotics, road-transport, sea-transport etc.

c) Schedule C: All the remaining industries which were not listed in schedule A or B were included in the third category. These industries were left open to the private sector. Hence, the responsibility with regard to establishment, function and development was of private sector, though the state could control these industries in terms of the Industries (Development and Regulation) Act of 1951, and other relevant legislations.

2. **Encouragement to Cottage and Small Scale Industries -** To encourage small sector, in the policy resolution, various steps were proposed such as: - (a) Direct subsidy was provided to small scale sector, (b) Suitable taxation relief was given to this sector, and (c) It was made objective of the State to protect small scale sector by advancing technical assistance. However, government failed to integrate these industries and their programs with the production program of the large- scale sector.

3. **Foreign Investment -** It allowed foreign capital participation in Indian economic development but the major share should belong to India.

4. **Removing regional inequalities** -One of the major objectives of resolution was reduction in regional inequalities and imbalances. But contrary to this, the actual operation of this policy resulted in increased regional inequalities. This becomes evident from various reports which noted that the four industrially advanced States of Maharashtra, Gujarat, West Bengal and Tamil Nadu benefited the most from the operation of this policy.

4.6.3 Industrial Policy Resolution 1977

There was a change in the political environment in the country with the fall of the Congress government after the national emergency. The Janata Government came into power at the centre in 1977. Theindustrial resolution which was adopted by the Janata Government had more focus on small scale industry, cottage and village industry. This was a move away from Nehruvian- Mahalanobis ideology to Gandhian ideology of economic development. Following are the main elements of this policy.

1. **Development of small scale industrial sector:** The main thrust of this policy was the effective promotion of cottage and small industries. Accordingly, the small sector was classified into three groups:
   a. Cottage and household industries
   b. Tiny sector
   c. Small-scale industries
2. **Areas for Large scale sector:** It prescribed the following areas for large scale industrial sector:
   a. Basic industries,
   b. Capital Goods
   c. High technology industries
   d. Other industries
3. **Role of public sector:** This policy expanded the role of public sector especially in respect of strategic goods of basic nature.
4. **Management-labour relations:** It gave emphasis on reducing the occurrence of labour-unrest. The government encouraged the worker's participation in management from shop floor level to board level.

4.6.4 Industrial Policy resolution, 1980

On 3rd July, 1980, the Congress governmentannounced the new industrial policy after its comeback. This policy sought to promote

the concept of economic federalism, to raise the efficiency of the public sector and reverse the trend of industrial production of the past three years and reaffirm its faith in the Monopolies and Restrictive Trade Practices (MRTP) Act and the Foreign Exchange regulation Act (FERA). Thus, the major features of this policy were:

a) This policy introduced the concept of nucleus plants which would concentrate on assembling the products of the ancillary units falling within its orbit, on producing the inputs needed by a large number of smaller units and making adequate marketing arrangements. It would also make provision or upgrading the technology of small units.
b) Some of the items reserved for small scale industry were de reserved.
c) Many units/companies were operating on excess capacities;these excess capacities were regularized.
d) Foreign Investment was allowed with technology transfer.
e) It tried to correct the regional imbalances within the country.

4.7 NEW INDUSTRIAL POLICY, 1991

The Congress government led by Sri Narashimha Rao announced the new economic policy and the new industrial policy in conformity with the overall developmental policy on 24th July, 1991. In line with the liberalization move introduced during the 1980s, the new policy radically liberalized the industrial policy itself and de-regulated the industrial sector substantially.

Thus, the primary objective of this new industrial policy was to "unshackle the Indian industrial economy from the cobwebs of unnecessary bureaucratic controls". The other objectives were:

a. to build on the gains already experienced,
b. to correct the distortions involved in the system,
c. to introduce liberalization measures in order to integrate Indian economy with world economy,
d. to abolish restrictions on direct foreign investments,
e. to liberate the indigenous enterprises from the restrictions of MRTP Act,

f. to maintain a sustained growth in productivity and employment; and also

g. to achieve international competitiveness.

To fulfil these objectives, the government introduced a series of initiatives in the new industrial policy, as discussed below:

1. **Abolition of Industrial Licensing:** In order to liberalize the economy and to bring transparency in the policy, the new policy abolished the system of industrial licensing to all industrial undertakings, irrespective of the level of investment, except for a short list of industries related to security and strategic concerns, social reasons, hazardous chemicals and overriding environmental concerns and items of elitist consumption. There are only 18 industries for which licensing were compulsory. However, of these 18 industries, 13 categories have been removed from the list gradually. Currently only 5 categories ofindustries involving health, strategic and security considerations, needs license Examples include alcohol, cigarettes, hazardous chemicals, electronic, aerospace and all types of defence equipment.

2. **Policy regarding public sector:** The 1956 Resolution had reserved 17 industries for the public sector. But, the 1991 industrial policy reduced this number to 8. As of now only 3 industries are reserved for government -

   a. Atomic Energy
   b. Mining of Atomic Minerals
   c. Railway Transport.

   The policy also suggested that those public enterprises which are chronically sick and which are unlikely to be turned around well, for the formation of revival/ rehabilitation schemes, be referred to the Board for Industrial and FinancialReconstruction (BIFR), or other similar high level institutions created for the purpose, in order to protect the interests of workers likely to be affected by such rehabilitation package.A social security mechanism was considered.

3. **MRTP Act:** Under the Monopolistic and Restrictive Trade Practice Act, all firms with assets above a certain size (Rs.100 crore since 1985) were classified as MRTP firms. Such firms were permitted to enter selected industries only and this also on a case by case approval basis. In addition to control through industrial licensing, separate approvals were required by such large firms for any investment proposals. The new Industrial Policy kept in abeyance the application of the M.R.T.P. Act and brought in the Competition Act with many new provisions.

4. **Foreign Technology and Investment:**The New Industrial Policy, prepared a specified list of high technology and high investment priority industries, wherein automatic permission was to be made available for direct foreign investment up to 51 percent foreign equity. The industries in which automatic approval was granted included a wide range of industrial activities in the capital goods and metallurgical industries, entertainment electronic, food processing and the services sectors having significant export potential. List was expanded later.

5. **Location Policy Liberalized:**Regarding the location of industries, it was mentioned that other than cities of more than 1 million populations, no industrial approval is required from the centre, except for industries subject to compulsory licensing. In cities, with more than 1 million population, industries other than those of non-polluting in nature, will be located outside 25 kms. of its periphery.

6. **Removal of Mandatory Convertible Clause:** In pre liberalization era, there was a mandatory convertible clause in loan agreement with borrower (industries in this case).As per this clause, banks had right to convert their loan amount into equity whenever they felt so. This will make them 'owner' from 'lender' in that enterprise. This clause was used by government as an instrument to nationalize private firms. This was removed under new economic policy.



CHECK YOUR PROGRESS

Q.1 : What was the main thrust of the Industrial Policy 1977?

Q.2 : What was the major deviation of the 1977 Industrial policy from the earlier ones?

Q.3 : What are the three industries reserved for Government after the 1991 Industrial Policy?

4.8 EVALUATION OF THE NEW INDUSTRIAL POLICY 1991

The New Industrial Policy 1991 aimed that the role of the government should change from that of only exercising control over industries to that of helping it to grow rapidly by cutting down delays.

It also tried to remove entry barriers and bring about transparency in procedures. This policy virtually ended the 'Licence-Permit Raj' which hampered private initiative and industrial development. The new policy therefore throws almost the entire field of industry wide upon for the private sector.

The public sector's role has been confined largely to industries of defence, strategic and environmental concerns. Thus new policy is more market friendly and aims at making the best use of available entrepreneurial talent in a congenial industrial environment. The Indian industrial sector was thus expected to grow faster under the new industrial policy 1991.

4.9 PRIVATIZATION

Privatization means the following:

a) The transfer of ownership of property or businesses from a government to a privately owned entity.

b) The transition from a publicly traded and owned company to a company which is privately owned and no longer trades publicly on a stock exchange. When a publicly traded company becomes

private, investors can no longer purchase a stake in that company.

One of the main arguments for the privatization of publicly owned operations is envisaged in the increase in efficiency that can result from private ownership. The increased efficiency is thought to come from the greater importance private owners tend to place on profit maximization as compared to government, which tends to be less concerned about profits.

Advantages of privatization:

a) It increases the overall efficiency and reduces the bureaucratic culture which is the main culprit because typically in government organizations work happens at its own leisurely pace which results in delay in decision making and therefore reduces the effectiveness and competence of public sector enterprise.

b) As far government is concerned it has also benefits from privatization because majority of governments all over the world has fiscal deficit and by privatization government can reduce fiscal deficit to an extent, however full control is possible only when government controls its unnecessary expenditures.

c) Another advantage of privatization is that once a privatization is done completely there is no interference from political leaders and also one does not need to do undue favor to them which in itself is a big boost when it comes to doing business and increasing profitability.

Disadvantages of privatization:

a) Private companies do not care about the society much and their main motive is to earn profits, which is in contrast to government companies. The government companies are more into social work. In case of privatization society will not benefit much as private companies do not have much obligation to do social work.

b) Privatization also affects the employees because in private sector enterprises there is emphasis on performance which indirectly results in work pressure and meeting deadlines or targets and individuals who have been doing work for years without much

pressure find it difficult to adjust to new setting and many end up resigning from their service.

c) In privatization there is a risk that it may take decisions of starting a project which results in short term benefits but may not be good from long term perspectives.

4.10 DISINVESTMENT

Disinvestment means the following:

a) The action of an organization or government selling or liquidating an asset or subsidiary. Also known as "divestiture".

b) A reduction in capital expenditure, or the decision of a company not to replenish depleted capital goods.

Disinvestment takes place because:

a) A company or government organization will divest an asset or subsidiary as a strategic move for the company, planning to put the proceeds from the divestiture to better use that garners a higher return on investment.

b) A company will likely not replace capital goods or continue to invest in certain assets unless it feels it is receiving a return that justifies the investment. If there is a better place to invest, they may deplete certain capital goods and invest in other more profitable assets.Alternatively a company may have to divest unwillingly if it needs cash to sustain operations.

Objectives of Disinvestment in India

The new economic policy initiated in July 1991 clearly indicated that PSUs had shown a very negative rate of return on capital employed. In fact, many PSUs traditionally established as pillars of growth had become a burden on the economy. The national gross domestic product and gross national savings were also getting adversely affected by low returns from PSUs. About 10 to 15 % of the total gross domestic savings were getting reduced on account of low savings from PSUs.

Hence, the need for the Government to get rid of these units and to concentrate on core activities was identified. The Government also took a view that it should move out of non-core businesses, especially the ones where the private sector had now entered in a significant way. Finally, disinvestment was also seen by the Government to raise funds for meeting general/specific needs.In this direction, the Government adopted the 'Disinvestment Policy', as an active tool to reduce the burden of financing the PSUs.

The following were identified as the main objectives of disinvestment:

a) To reduce the financial burden on the Government
b) To improve public finances
c) To introduce competition and market discipline
d) To fund growth
e) To encourage wider share of ownership
f) To depoliticise non-essential service

Thus, disinvestment is aimed to reduce or mitigate fiscal deficit, bring about a measure of economic stabilisation or to improve efficiency in public enterprises through structural adjustments initiated to improve their efficiency and productivity.

The new Industrial Policy provides that, "In order to raise resources and encourage wide public participation, a part of the government share holding in the public sector would be offered to mutual funds, financial institutions, general public and employees". This is a process for disinvestment in the public enterprises.

4.11 INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY (IRDA)

Insurance Regulatory and Development Authority of India (IRDAI) is an autonomous apex statutory body which regulates and develops the insurance industry in India. It was constituted by an Act of Government of India, called Insurance Regulatory and Development Authority Act, 1999. The agency operates from its headquarters at Hyderabad, Telangana where it shifted from Delhi in 2001. Thus, IRDA regulates the Indian insurance

industry to protect the interests of the policyholders and work for the orderly growth of the industry.

IRDA's Mission - Insurance Regulatory and Development Authority (IRDA) Act, 1999 spells out its Mission as:

"... to protect the interests of the policyholders, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto....."

Functions and Duties of IRDA: Section 14 of the IRDA Act, 1999 lays down the duties, powers and functions of IRDA. Some of them are as follows.

- Registering and regulating insurance companies
- Protecting policyholders' interests
- Licensing and establishing norms for insurance intermediaries
- Promoting professional organisations in insurance sector
- Specifying financial reporting norms of insurance companies
- Regulating investment of policyholders' funds by insurance companies
- Ensuring insurance coverage in rural areas and of vulnerable sections of society

IRDA also batted for a hike in the foreign direct investment (FDI) limit to 49 per cent in the insurance sector from the erstwhile 26 per cent. As such, the FDI limit in insurance sector was raised to 49% in July 2014.



CHECK YOUR PROGRESS

Q.6 : State two objectives of disinvestment

Q.7 : State two functions of IRDA.



4.12 LET US SUM UP

In this unit we have discussed the following aspects–

- The Industrial Policy Resolutions were adopted in India for accelerating the industrial development of the country. The focus was on having a

balanced development with the contribution of the private and public sector as well.

- Privatization means the transfer of ownership of property or businesses from a government to a privately owned entity.
- Disinvestment means the action of an organization or government selling or liquidating an asset or subsidiary.
- In the new scenario, economic development of the regulatory organizations had to play an important role. Insurance Regulatory and Development Authority of India (IRDAI) is an autonomous apex statutory body which came into being in 1999. IRDAI regulates and develops the insurance industry in India



4.13 FURTHER READING

1. Business Environment- Text and Cases; Francis Cherunilam; Himalaya Publishing House; Mumbai, 2014
2. Business Environment; Saroj Upadhyay; Asian Books Private Ltd. New Delhi, .2nd Edition, 2005
3. Business Environment; Pippa Riley; Viva Books; New Delhi, Ist Edition, 2011



4.14 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: Promotion of cottage and small industries was the main thrust of the Industrial Policy 1977.

Ans to Q2: The major deviation of the 1977 policy from the earlier policies was from Nehruvian- Mahalanobis ideology to Gandhian ideology of economic development.

Ans to Q3: The three industries reserved for Government for doing business after the 1991 policy are:

i. Atomic industries

ii. Mining of atomic minerals

iii. Railway transport

Ans to Q4: Two objectives of disinvestment are as follows:

i. To reduce the financial burden on the Government

ii. To improve public finances

Ans to Q5: Two functions of IRDA are as follows:

i. Registering and regulating insurance companies

ii. Protecting policyholders' interests



4.15 MODEL QUESTIONS

Q.1. Explain the following terms:

a. Developed economy

b. Economic Reforms

c. Mixed economy

d. Privatization

e. Disinvestment

f. IRDA

Q.2. Discuss the salient features of the different industrial policy resolutions adopted before 1991.

Q.3. Discuss the features of the New Industrial Policy 1991.

Q.4. Explain the advantages and disadvantages of privatization.

Q.5. Explain the objectives of disinvestment in India.

Q.6. What are the functions of IRDA?

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UNIT 5: VILLAGE AND SMALL INDUSTRIES

UNIT STRUCTURE

5.1 Learning Objectives

5.2 Introduction

5.3 Definition of Small Enterprise and Village Industries

5.4 Characteristics of Small Enterprises

5.5 Relationship between Small and Large Enterprises

5.6 Khadi and Village Industries

5.7 State Industrial Policies

5.8 Role of Small Enterprises in Economic Development

5.9 Problems of Small Scale Units

5.10 Let Us Sum Up

5.11 Further Readings

5.12 Answers to Check Your Progress

5.13 Model Questions

5.1 LEARNING OBJECTIVES

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

- define a small scale enterprise and state its salient characteristics
- understand the relationship between small and large scale units
- state the objectives and scope of state industrial policies
- describe the role of khadi and village industries in the economic development of a country
- describe the major problems faced by the small scale enterprises.

5.2 INTRODUCTION

In this unit we are going to discuss about village and small scale industries. Small scale enterprises have been given an important place in

the framework of Indian planning since beginning both for economic and ideological reasons. The importance of developing the small scale sector has been emphasized by all industrial policy resolutions. A number of protective and promotional measures have been taken accordingly to support their survival and to encourage their growth. The small scale industrial enterprises have a number of problems. Despite the difficulties, the small sector has emerged as a dynamic and vibrant sector in the Indian economy. In this Unit we shall discuss various aspects related with small and village industries and the role of government in promoting the sector.

5.3 DEFINITION OF SMALL ENTERPRISES AND VILLAGE INDUSTRIES

The business units are of different sizes depending on the nature of industry. For example, iron and steel industries tend to be of large size. Similarly some public utilities like the railways and electricity supply concerns require a large size. On the other hand, industries requiring individual skill of the workers, viz. handicraft, artistic goods etc. tend to be of small size. In between, there are some other industries for which medium sized units are more suitable.

In order to measure the size of the business unit, a suitable standard or standards should be used. In this section, we will discuss the various standards which are commonly used to measure the size of a business unit. These standards may not be uniform to all categories of industries.

The first official definition of SSI (small scale industries) in India was coined, in 1950, in terms of the size of gross investment in fixed assets (plant and machinery, land, building) as well as on the strength of the workforce concerned. The criterion underwent a number of modifications over the years. In the later part of the fifties, there was a change in defining an SSI. There was a shift from workforce criterion to investment criterion. The Micro, Small and Medium Enterprises Development Act 2006, have provided the definitional framework.

Under the Act, enterprises have been categorized broadly into those engaged in manufacturing and services. Both categories have been further classified into micro, small and medium enterprises, based on their investment in plant and machineries (in case of manufacturing enterprises), and equipment (in case of service enterprises)

Manufacturing Enterprises: The investment limits of various categories of manufacturing enterprises are as follows

i. Micro Enterprises: Investment up to Rs.25 lakh
ii. Small Enterprises: Investment above Rs. 25 lakh and up to Rs. 5 crore
iii. Medium Enterprises : Investment above Rs. 5 crore and up to Rs. 10 crore

Service Enterprises: The investment limits of various categories of service enterprises are as follows

i. Micro Enterprises : Investment up to Rs.10 lakh
ii. Small enterprises : Investment above Rs. 10 lakh and up to Rs. 2 crore
iii. Medium Enterprises : Investment above Rs. 2 crore and up to Rs. 5 crore

As indicated above, the current practice of defining small and medium enterprises is based on investment limit. Actually, there exists no specific definition. The concept of small-scale, ancillary and tiny industry is related with the historical value of investment in plant and machinery or equipment.

The village and small industries (VSI) sector encompasses a continuum of artisans/handicraft units at one end and modern production units with significant investments on the other. The VSI sector broadly consists of:

i. Traditional cottage and household industries like khadi, village industries, handloom, sericulture, handicrafts, coir etc.
ii. Modern small scale industries including tiny units, power looms etc. There has been an increase in the variety of products manufactured by the small scale sector. They have ventured into the manufacture of many new and sophisticated items.

By definition, village industries indicate any industry located in a rural area which produces any goods or renders any service with or without the use of power and in which the fixed capital investment per head of an artisan or a worker does not exceed [one lakh rupees] or such other sum as may, by notification in the Official Gazette, be specified from time to time by the Central Government.

5.4 CHARACTERISTICS OF SMALL ENTERPRISES

1. **One PersonShow:** A small scale unit is generally a one-person show. Even the small units which are run by a partnership firm or company, the activities are mainly carried out by one of the partners or directors. In practice, the others do not play a very active role.The other directors or promoters mainly assist in providing funds.
2. **Managed in Personalized Fashion:** In case of small-scale industries, the owner himself/ herself is a manager also. Thus, these units are managed in a personalized fashion. The owner has first hand participation in all matters of business decision making.
3. **Gestation Period:** Compared to large units, a small-scale industrial unit has lesser gestation period, i.e. the period after which the return on investment starts.
4. **Scope of Operation:** The scope of operation of small industrial undertakings is generally localized catering to the local and regional demands.
5. **Availability of Resources:** Small units use indigenous resources and, therefore, can be located anywhere subject to the availability of these resources like raw materials, labour etc.
6. **Labourdependent:** Small industries are fairly labour intensive with comparatively smaller capital investments than the larger units.
7. **Balanced Regional Development:** Small units are dispersed in rural areas. They use local resources. Thus, the growth of small-scale industries in rural areas promotes more balanced regional development, on the one hand and prevents the influx of job seekers from rural areas to cities and urban areas.

8. **Adaptable to Changes:** Last but not the least, compared to large scale units, small-scale units are more susceptible to change. They are highly reactive to changes in environment and receptive to socio-economic conditions. They are more flexible to adapt changes like introduction of new products, new method of production, new materials and new markets, new forms of organization etc.

9. **Registration:** Registration is usually done in the form of obtaining trade licences under the respective municipal board of corporation or Gaon Panchayat under whose jurisdiction it falls. Registration also enables the business enterprise to enjoy cartain special privileges.

5.5 RELATIONSHIP BETWEEN SMALL AND LARGE SCALE UNITS

The relationship between the small and the large industrial units can be seen in various respects. The following are the important ones:

1. **Competition:** Small-scale industry cannot compete with large industry in certain circumstances and in selected products. Examples of such industries are automobile and steel industries. In certain industries like bakeries food processing etc., small sector industries have certain advantages.

2. **Supplementary:** Small industry can fill in the gaps in case of excess demand. The large industries have got their fixed production capacity installed. In case of excess demand the small industries can supplement their activities so as to meet the excess demand.

3. **Complementary:**Apart from the supplementary relationship, small industry has been complementary to its large counterparts. In the real world, many small units produce intermediate products for large units. Such subcontracting relationship between the small and large was particularly marked in the economic history of one of today's industrially developed countries - Japan. As industrialization proceeds, small firms seem naturally to shift from activities that

compete with large firms to complementary ones. Under complementary relationship, small units function under the tutelage (guardianship) of the large units and enjoy the advantage of protected market for their products. Then, the development of such small units remains assured.

4. **Initiative:** Attracted by the high profits of large units, small units can also take initiative to produce the particular product. If it succeeds, the small unit grows to a large one over a period of time. In case of detergent industry, a number of small players have become national level marketers. Brands like Nirma, GhadiDtergent was small players initially. They took advantage of the growth potential in the market and have become high selling brands today.

5. **Servicing:** Small industries do also install servicing and repairing shops for the plants of large units. Such small servicing units can be seen proliferating in respect of large industries like refrigerators, radio and television sets, watches and clocks, cycles and motor vehicles. Take the example of the Maruti Alto car. Although MarutiUdyog Ltd. produces the car, it is basically an assemblage of several parts, accessories etc. Tires will be supplied by the large enterprises. But, the car needs mattresses for coverage of the floor area. The quality of the car will also depend upon the kind of supplies made by the enterprises in the small scale sector.

5.6 KHADI AND VILLAGE INDUSTRIES

"KHAD IIS A HARBINGER OF PEACE AND AN ICON OF OUR FREEDOM AND NATIONAL EXISTENCE"

-- Shri VK Saxena, Chairman, KVIC in Millennium Post, New Delhi, February, 2016.

The various objectives of developing khadi and village industries are, in fact, implied in one way or other, in its rationale itself, just discussed in the preceding sections. Nonetheless, an attempt has been made in this section

to list the main objectives of developing khadi and village industries in India. These are:

1. To generate immediate and large scale employment opportunities with relatively low investment.
2. To eradicate unemployment problem from the country.
3. To encourage dispersal of industries to all over the country covering small towns, villages and economically backward areas.
4. To bring backward areas too in the mainstream of national development.
5. To promote balanced regional development in the whole country.
6. To ensure more equitable distribution of national income.
7. To encourage effective mobilization of country's untapped resources.
8. To improve the standard of living of people in the country.

In an economy like India, characterized by abundant labour supply and the consequent unemployment problem, small scale industries can be of great use. The labour force is rising. As the small scale sector has huge employment potential, the achievement of the objectives of the small scale industries will go a long way in solving a number of economic problems like unemployment.

The Khadi and Village Industries Corporation KVIC) and the Khadi and Village Industry Boards (KVIB) entrusted with the planning, promotion, organisation and implementation of programs for the development of Khadi and other village industries in the rural areas in coordination with other agencies engaged in rural development wherever necessary. The functions of KVIC also comprise building up of a reserve of raw materials and implements for supply to producers, creation of common service facilities for processing of raw materials as semi-finished goods and provisions of facilities for marketing of KVI products apart from organisation of training of artisans engaged in these industries and encouragement of co-operative efforts amongst them. To promote the sale and marketing of khadi and/or

products of village industries or handicrafts, the KVIC may forge linkages with established marketing agencies wherever feasible and necessary.

The KVIC has broadly re-grouped various village Industries under seven heads for the purpose of implementation of its programmes. The list of industries is as under.

Mineral Based Industry : Pottery and Lime

Agro Based & Food Processing Industry (ABFPI)

1. Pulses & Cereals Processing Industry
2. Gur &Khandsari Industry
3. Palmgur Industry
4. Fruit & Vegetable Processing Industry
5. Village Oil Industry

Polymer & Chemical Based Industry (PCBI)

1. Leather Industry
2. Non Edible Oils & Soap Industry
3. Cottage Match Industry
4. Plastic Industry

Forest Based Industry (FBI)

1. Medicinal Plants Industry
2. Bee Keeping Industry
3. Minor Forest Based Industries

Hand Made Paper & Fibre Industry (HMPFI)

1. Hand Made Paper Industry
2. Fibre Industry

Rural Engineering & Bio Technology Industry (REBTI)

1. Non Conventional Energy
2. Carpentry &Blacksmithy
3. Electronics

Service Industry : Co-ordination



CHECK YOUR PROGRESS

Q.1 : Write any two characteristics of small scale enterprises.

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Q 2: Mention two objectives of small scale enterprises.

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5.7 STATE INDUSTRIAL POLICIES

The scope of small and village industries is quite vast covering a wide range of activities requiring less sophisticated technology. In consonance with its distinct characteristics, the activities which are found particularly amenable to and can be successfully operated in small-scale are too many to mention. Among them, the important ones are:

1. Manufacturing activities
2. Servicing/repairing activities
3. Retailing activities
4. Financial activities
5. Whole-sale business
6. Construction activities and,
7. Infrastructural activities like transportation, communication and other public utilities.

In order to strengthen the scope of development of this sector in our country, the Government of India has, along with its other assistance programmes, announced its reservation policy for small sector in the country. The reservation policy was initiated in 1967 when only 47 items were reserved

for exclusive manufacture in the small-scale sector. By 1983, the reserve list came to include 836 items for exclusive production in the small-scale sector. The Abid Hussain Committee de-reserved 12 items and, thus, there are still 824 items reserved for exclusive production in small sector. The main objective of the reservation policy has been to insulate the small sector from unequal competition of large industrial establishments, so that the sector can grow through expansion of existing units and the entry of new firms. The important industries reserved for exclusive development in the small sector are:

i. Food and Allied Industries;
ii. Textile Products;
iii. Leather and Leather Products, including footwear;
iv. Rubber Products;
v. Plastic Products;
vi. Natural Essential Oils;
vii. Organic Chemicals and Chemical Products;
viii. Glass and Ceramics;
ix. Mechanical Engineering Transport Equipment;
x. Metal Cabinets of all Types;
xi. Pressure Stove; Electrical Appliances;
xii. Electronic Equipment and Components;
xiii. Boats and Truck Body Building;
xiv. Auto Parts Components;
xv. Ancillary and Garage Equipment;
xvi. Bicycle Parts, Tricycles and Perambulators;
xvii. Miscellaneous Transport Equipment;
xviii. Mathematical and Survey Instruments;
xix. Sports Goods;
xx. Stationery items,
xxi. Clocks and watches, etc.

5.8 ROLE OF SMALL ENTERPRISES IN ECONOMIC DEVELOPMENT

In order to understand the role of small enterprises in economic development, we need to consider different aspects of economic development. In this connection, the following points may be noted:

1. The commonest definition of economic development could be an increase in real per capita income of a person resulting in improvement in the levels of living.
2. The development of small-scale industries contributes to the increase in per capita income, i.e., economic development in various ways.
3. It generates immediate employment opportunities with relatively low capital/ investment, and promotes more equitable distribution of national income.
4. It makes effective mobilization of untapped capital and human skills and leads to dispersal of the manufacturing activities all over the country.
5. It also leads to the growth of villages, small towns and regions economically lagging behind. This promotes a balanced regional development.

Any discussion on the role of small enterprises in the economic development of a country should take into account the following relevant parameters.

a) Increase in the number of functional enterprises: Mere increase in number of enterprises will not satisfy the purpose. The units need to be functional and financially viable.

b) Increase in job creation: The enterprises should be able to create jobs and then only the small scale sector would be able to address the unemployment problem.

b) Increase in Production: More and more production implies volume of activities including purchase of raw materials, processing etc. All these help in keeping the economy vibrant.

c) Increase in sales and profit with a reduction in cost: Profitability is always important. It implies profit yielding capacity. To that extent sales and cost considerations are very important. The enterprises need to be cost effective. Then only, they would be able to make the desired contribution to economic development.

d) Increase in volume and value of export: The contribution of the small sector can be understood by the volume of export and the value realized in the country by selling abroad.

5.9 PROBLEMS OF SMALL SCALE INDUSTRIES

This section intends to discuss the problems of small scale industries. Some of the problems are as follows:

1. **Problem of Raw Material:** A major problem that the small-scale industries have to contend with is the procurement of raw material. The problems of raw material may be in the areas of (i) a scarcity, (ii) poor quality of raw materials, and (iii) a high cost. But, ever since the emergence of modern small-scale industries, manufacturing a lot of sophisticated items, the problem of raw material has emerged as a serious problem on their production efforts. The small units that use imported raw material face raw material problem with more severity mainly due to the difficulty in obtaining this raw material either on account of the foreign exchange crisis or for some other reasons.

2. **Problem of Finance:** An important problem faced by small-scale industries in the country is that of finance. The problem of finance in the small-sector is mainly due to two reasons. Firstly, it is partly due to scarcity of capital in the country as a whole. Secondly, it is partly due to weak creditworthiness of small units in the country. Due to their weak economic base, they find it difficult to take financial assistance from the commercial banks and financial institutions. As such, they are bound to obtain credit from the money lenders on a very high rate of interest and such credits are, thus, exploitative in character.

3. **Problem of Marketing:** One of the main problems faced by the small-scale unit is in the field of marketing. The small units often do not possess a marketing organization and corresponding marketing programs. In consequence, their products compare unfavorably with the quality of the products of the large-scale industries. Unlike their big counterparts in the large sector, the small scale enterprises find it difficult to create and sustain brands. Brand building requires huge investment in advertising and other modes of promotion. The small scale enterprises do not have the money to compete with the large units. In addition, they do not have the expertise also to make the brand building measures successful.

4. **Problem of Under-Utilization of Capacity:** There are studies that clearly bring out the gross under-utilization of installed capacities in small-scale industries. All India Census of Small-Scale Industries indicated that in 1972, the percentage utilization of capacity was only 47 in mechanical engineering industries, 50 in electrical equipment, 58 in automobile ancillary industries, 55 in leather products and only 29 in plastic products. We have not seen marked improvement in the trend. On an average, we can safely say that 40 to 50 per cent of capacity was not utilized in small-scale units.

5. **Other Problems:** The small-scale industries have been constrained by a number of other problems also. According to the Seventh Five Year Plan, these include the following:

   i. technological obsolescence,
   ii. inadequate and irregular supply of raw materials,
   iii. lack of organized market channels,
   iv. imperfect knowledge of market conditions,
   v. unorganized nature of operations,
   vi. inadequate availability of credit facility,
   vii. constraint of infrastructure facilities including power etc. and
   viii. deficient managerial and technical skills.

The role of the small scale industries cannot be underestimated. Industrial sickness is widespread in small scale sector. The earning levels of a large number of people employed in the small and traditional sector are very low. Unless, productivity in this sector increases, there might not be significant improvement in earnings levels. In short, low level of technology resulting in poor productivity and inadequate returns continue to characterize the village and small enterprises.



ACTIVITY 1.1

Discuss with examples if the small scale industries in Assam have become a significant contributor to the economic development in the state.

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CHECK YOUR PROGRESS

Q.3 : State True/ False :

a) Small and large scale enterprises are the two legs of industrialization process. (T/F)

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b)A small scale industry is one which has fixed capital investment in its plant and machinery upto Rs.6 crores. (T/F)

.....

c)The reservation policy in respect of small scale industry was initiated by the Govt. of India to protect the sector. (T/F)

.....

d)The Abid Hussain Committee deserved 12 items reserved for exclusive production in small sector. (T/F)

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Q.4 : Why is marketing a problem for the small sector enterprises?

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5.10 LET US SUM UP

In this unit we have discussed the following aspects–

- The small and village industries has been given a lot of emphasis in India. Because the small and village industries can help in achieving a number of desirable objectives like promotion of entrepreneurship, generation of employment opportunities, development of regional balance, utilization of local resources etc.
- The scope of operation of small scale industrial undertaking is generally localized catering to the local and regional demands.
- The growth of small scale industries plays a pivotal role in the economic development of a country in various ways.
- It generates immediate employment opportunities with relatively low capital/ investment which thereby promote a balanced regional development.
- The small and village industries face a number of problems. Problem of raw material, problem of finance, problem of marketing, problem of underutilization of capacity etc. has given rise to various challenges with which the small-scale industries have to contend.



5.11 FURTHER READING

1. Business Environment- Text and Cases; Francis Cherunilam; Himalaya Publishing House; Mumbai, 2014
2. Business Environment; SarojUpadhyay; Asian Books Private Ltd. New Delhi, .2nd Edition, 2005
3. Business Environment; Pippa Riley; Viva Books; New Delhi, Ist Edition, 2011
4. http://www.kvic.org.in



5.12 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: Two characteristics of small scale enterprises are

- One Person Show: - The activities of a small scale unit are generally are mainly carried out by the entrepreneur himself or herself or by one of the partners or directors of the enterprise.
- Managed in Personalized Fashion: - In case of small-scale industries, the owner himself/ herself is a manager also. Thus, these units are managed in a personalized fashion.

Ans to Q No 1:Two objectives of small scale enterprises are

- To generate immediate and large scale employment opportunities with relatively low investment.
- To eradicate unemployment problem from the country.

Ans to Q No 3: (a) True (b) False
(c) True (d) True

Answer to Q 4: The small units often do not possess any marketing organization and marketing programs. Unlike their big counterparts in the large sector, the small scale enterprises find it difficult to create and sustain brands. Brand building requires huge investment in advertising and other modes of promotion. The small scale enterprises do not have the money to compete with the large units. In addition, they do not have the expertise also to make the brand building measures successful.



5.13 MODEL QUESTIONS

Q 1: Discuss the characteristics of small enterprises.

Q 2: Discuss the objectives and scope of small enterprises.

Q 3: Explain the role of small enterprise in economic development.

Q 4: What are the problems associated with small scale industries?

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UNIT 6: INDUSTRIAL SICKNESS

UNIT STRUCTURE

6.1 Learning Objectives

6.2 Introduction

6.3 Meaning of Industrial Sickness

6.4 Warning Signals of Industrial Sickness

6.5 Causes of Industrial Sickness

- 6.5.1 External Causes of Industrial Sickness
- 6.5.2 Internal Causes of Industrial Sickness
- 6.5.3 Factors Responsible for Sickness of Small Business

6.6 Consequences of Industrial Sickness

6.7 Preventive and Curative Measures

6.8 Let Us Sum Up

6.9 Further Readings

6.10 Answers to Check Your Progress

6.11 Model Questions

6.1 LEARNING OBJECTIVES

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

- explain the concept of industrial sickness
- state the causes for industrial sickness
- understand the consequences of industrial sickness
- suggest measures for solving the problem of sickness.

6.2 INTRODUCTION

In this unit, we are going to discuss about industrial sickness. Industrial sickness is an important problem related with development of a country. The problem of industrial sickness does exist equally in both the developing and the developed countries. But, it is essential to solve the problem that exists in a developing country like India for achieving higher growth rate and maintaining adequate level of employment.

The incidence of industrial sickness was there in the pre-liberalization era. It has been growing in India since the adoption of economic reforms in the last decade. It is not that only some of the traditional industries like cotton textiles jute and sugar have been afflicted with sickness but even some other important industries such as engineering, chemicals, rubber, cement, electrical and paper have been affected by industrial sickness. In the new age environment, the e commerce sector has flourished. With the advent of internet, new forms of doing business have emerged. The e-tailers have emerged. The dot.com companies have entered the market without having any established norms. Most of them overestimated the demand; many of them did not have the required infrastructural and logistical back up to sustain their enterprises. As a result many of the units had to close down. This type of phenomenon can be described as industrial sickness. In this Unit, we shall discuss the aspects related with industrial sickness.

6.3 MEANING OF INDUSTRIAL SICKNESS

In 1985 the Sick Industrial Companies (Special Provision) Act, 1985 was enacted. This Act offered a definition of sickness. According, to this Act, "Sick Industrial Company" indicates an industrial company (registered for not less than seven years) showing accumulated losses equal to or exceeding its net worth at the end of any financial year, and suffering cash losses also during that financial year and the immediately preceding year. Here, the "Cash loss" indicates computed loss without making provision for depreciation etc. Moreover, a company will be known as "incipiently sick" which has already eroded 50% or even more of its peak net worth during any of the preceding five financial years. However, the Sick Industrial Companies Act, 1985 has been finally repealed with effect from 1st December, 2016. The provision of sick companies are presently found under the Companies Act, 2013 under Chapter XIX. Now, the sickness is linked to the capability of the company to repay its defets or not.

6.4 WARNING SIGNALS OF INDUSTRIAL SICKNESS

Given below are some of the warnings of Industrial Sickness:

1. **Shortage of liquid funds to meet short-term financial obligations of creditors as also to meet statutory obligation:** This is the first sign of sickness when an enterprise cannot pay for the purchase of raw materials, when it delays the payment to its labour. Besides this, when the industrial unit in all violation of legal provisions, stops meeting its statutory obligations, such as contributions to Employees Provident Fund, Payment of Sales Tax etc, then it is seen as beginning to suffer from industrial sickness.

2. **Growth of Excessive Inventories:** Excessive accumulation of Raw Materials, goods-in-process and finished goods is yet another warning signal. The failure of the firm to sell the finished goods at the pace it was doing earlier results in higher inventory accumulation.Piling of inventories causes serious problems in managing working capital. Inventories need to be converted into cash so as to pave the ways for payment to the suppliers and other service providers.

3. **Non-payment:** Non-Payment of interest on term loans or non-payment of installments gives another signal of impending sickness. An industrial enterprise needs to have mutually beneficial relationship with the bankers. To that extent timely payment of loans is very important, Defaulting payments damage the relationship. In that case the banks will not raise the credit limit; rather it will curtail the future provisions of extending loans.

4. **Underutilization of capacity:** Every unit of production for its survival must cross the break-even point.If a firm operates below its break-even point, then it is incurring a loss and is bound to grow sick. It is a function of fixed cost, sale and variable cost. Fixed cost remains fixed for a period of time. In order to utilize the full capacity raw materials will have to be procured;labour will have to be deployed. Overheads will have to be extended. If the produced goods can be

sold at a good selling price, that helps in making the desired contribution towards coverage of fixed cost and then to profit. Underutilization of capacity has lots of hidden cost for the firm. This needs to be avoided. Or else, this may lead towards industrial sickness.

5. **Return on Investments:** A production unit should be capable of making an adequate provision for depreciation. For obtaining a rate of return on investment, the net profit as a proportion of the total investment in the enterprise has to be taken. Total investments should include Equity Capital and Reserve. A comparison of the rate of return with the prevailing rate of interest is indicative of the health of the enterprise.

6. **Maintenance of financial ratios:** If the ratio of current assets to current liabilities is less than 1:1 an enterprise is considered as sick. In other words, it indicates losses and declining liquidity of the firm. A declining debt-equity ratio indicates movement towards sickness.



CHECK YOUR PROGRESS

Q.1 : What is meant by Industrial Sickness?

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6.5 CAUSES OF INDUSTRIAL SICKNESS

The causes that are responsible for Industrial sickness in India are broadly classified into two categories, they are :

(a) External Causes and (b) Internal Causes

6.5.1 External Causes of Industrial Sickness

External causes include:

a. It includes power cuts imposed by the state Governments. Supply of electricity without having voltage fluctuation is an essential requirement for smooth functioning of industrial enterprises. In our country, most of the industrial units have to

face the problems of constant supply of power of the required quantity and quality. Interruption in the production schedule causes problems in managing working capital. Moreover, demand in the market cannot be met. This antagonizes the customers and results in loss of good will in the market.

b. Scarcity of raw materials and other inputs due to its erratic supply. The regularity of supplies needs to be assured. Because of flood, excessive rain etc. supplies cannot be made regularly. Road conditions also impact regularity of supply. Many of the external factors are beyond the control of the firm. Hence they have to face the consequences of running in loss for inadequate supply.

c. Frequent changes in the government policy in connection with industrial licensing, taxation, power tariff, imports etc. All these external factors are equally responsible for growing sickness among the industrial units of the country. The Government has to enact legislations for the benefit of society. In order to protect the environment, the government banned cutting of trees. This resulted in closure of many units in the plywood industry. Industrial enterprises depending on imported items are likely to be effected if there is a hike on import duties.

6.5.2 Internal Causes of Industrial Sickness

Following are the internal causes for industrial sickness

a. Faulty location of industrial unit: Once a decision is made about location of an industrial enterprise and manufacturing is stared, it involves the fixed cost. It becomes a point of no return. The fixed cost will have to be recovered. A faulty decision in this respect will create serious long term problems for the firm affecting its profitability.

b. Defective selection of plants and machineries and adoption of obsolete technology: This problem is acute particularly in the small scale sector. The small enterprise cannot invest heavily in procurement of state of the art technology and good quality

plants and machineries. They have to make compromises with the obsolete technology which is not cost effective and customer friendly. This creates problems and lead towards industrial sickness.

c. Incompetent entrepreneurs having no knowledge about costing, marketing: The entrepreneurs are responsible for smooth functioning of their enterprises. They should undergo training before starting their respective enterprise. After the formation also, they should constantly upgrade their knowledge and managerial skills by attending training programmes etc.

d. Labour problems like strikes and lockouts arising from strained industrial relation over the issues like wages, bonus and industrial discipline etc.

6.5.3 Factors responsible for sickness of Small Business

Apart from the factors mentioned above,some other factors responsible for sickness of Small Business are as given below:

1. **Lack of managerial skills:** Most of the entrepreneurs who establish small scale industries (SSI units), do not have specialized knowledge of management. The overhead costs of these units are very high. The enterprises do not have easy access to credit. In absence of that they have to borrow at high rates of interest from the lenders in the market. Because of lack of training, the entrepreneurs are not aware of the schemes of government and financial institutions regarding extension of credit.The inexperienced management in the small units cannot take the required care for saving costs and ensuring efficiency, more particularly during the period of infancy.

2. **Non-observance of management principles:** Usually the rate of interest on the capital employed in SSI units is very high. The entrepreneurs of SSI start the enterprises with a low equity base and make no effort to build internal financial resources during the good years.

3. **Underutilization of capacity:** This is yet another important factor responsible for sickness. Most of the industrial sectors do not utilize the full capacity due to certain reasons e.g. lack of working capital, lack of demand, and shortage of raw materials. Those industrial units which are permanently unable to utilize the optimum level of capacity slowly enter into sickness.
4. **Government policies:** The govt. policies also affect the feasibility and success of SSI units. Sometimes, the change in the government policies affects adversely the functioning of SSI units, hence these units become sick. For example, the reduction by the Govt. in the list of products reserved for being produced under SSI units in India has resulted in the sickness of numerous industrial units. These units are unable to face the completion from the large scale industries and the Multinational Corporations (MNC's).
5. **Easy approval of small- scale units by the state:** In order to popularize schemes for development of entrepreneurship, sometimes proposals are prepared in a hurry without exploring all the details. If the assessment of viability of the projects is not made with adequate care, especially with regard to financial viability, the SSI unit is likely to become sick.



CHECK YOUR PROGRESS

Q 2 : State two causes of industrial sickness.

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Q 3: a. Frequent changes in the government policy are responsible for industrial sickness. Why?

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b. Underutilization of capacity is an important factor responsible for industrial sickness. Why?

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6.6 CONSEQUENCES OF INDUSTRIAL SICKNESS

Sickness is a serious problem that has affected the small, medium and large industries. It is a matter of serious national concern. It not only affects owners, employees, creditors and suppliers, it causes wastage of national resources and social unrest. Industrial enterprises become sick at different stages of their lives. Some industrial units may be born sick. Some gain sickness. In some cases, sickness is thrown on them. In the past, the Government took over a large number of sick units. The financial burden was huge. Because of which, Government has given up the policy of taking over sick units.

The Sick Industrial Companies (Special Provisions) Act (SICA) was passed in 1985 with the objectives of timely detection of sick units and potentially sick units. The Act has provisions for speedy determination by a Board of Experts (BIFR- Board for Industrial Finance and Reconstruction). It sought to adopt remedial measures. However the efforts of SICA and BIFR were not considered adequate to reduce the negative consequences of industrial sickness. The SICA was repealed and the revival and rehabilitation of sick companies are now dealt with the Companies Act 2013.

Industrial sickness may cause serious consequences in an under-developed labour-surplus economy like India. These consequences include:-

1. Aggravating unemployment problem because of the closure of Industrial Units. This may create social unrest.
2. Widespread labour unrest threatening industrial environment in the country. The entrepreneurs lose morale to sustain their activities.
3. Wastage of huge resources invested in these sick units.
4. Creating adverse impact on the other related units. Closure of one industrial unit affects its suppliers and distributing firms.
5. Causing huge financial losses to banks and other lending institutions, locking up funds in these sick units
6. Creating disincentive among the entrepreneurs and investors due to widespread closure of units.

6.7 PREVENTIVE AND CURATIVE MEASURES

The problem of industrial sickness in SSI units is different from that of large scale industrial sickness. It is basically the problem of increasing the competitive strength and viability of the small units. Therefore, special efforts have to be made for preventing industrial sickness in SSI units. As the saying goes, prevention is better than cure. Despite best of the preventive measures, an industrial enterprise may face sickness because of unforeseen circumstances and uncontrollable elements. Whenever the business environment becomes congenial, the enterprise should look for formulation and implementation of turnaround strategies. Turnaround management involves management review; root failure causes analysis, and SWOT analysis to determine why the enterprise is failing. Once the analysis is completed, a long term strategic plan and restructuring plan are created.The Turnaround Strategy is a retrenchment strategy followed by an organization when it feels that the decision made earlier is wrong and needs to be undone before it damages the profitability of the enterprise.

Some of the measures to be adopted to prevent and correct industrial sickness are as follows:

1. The industrial units should pay special attention towards creation of financial resources and the short term capital should not be used for medium term/long term investment.
2. The managerial skills should be developed by providing training to the entrepreneurs of SSI units.
3. The Government can afford priority in allocation of scarce raw materials, extending marketing assistance and granting certain rebates and concessions to small units and more as to such units which show better record of performance.
4. The cost of capital should be reduced and efforts should be taken to reduce overhead costs in SSI units.
5. Funds should not be utilized elsewhere, since a majority of sick units die in the second and third year of their existence, a programme of

monitoring and nursing them during infancy is very essential. In this way the factors leading to low capacity utilization can be examined and quick action can be taken.

6. SSI units should maintain inventories at optimum level so that costs should be reduced and it does not affect the sales of the industry adversely.

7. Sickness of small units should be treated at par with scarcity and concessional rates of interest be charged at par with those loans, that are granted in scarcity.

8. The Reserve Bank of India and other promotional organizations should issue guidelines for the smooth functioning of small units and thus make professional management expertise available for small entrepreneurs. The management expertise should acquaint the small entrepreneurs with the need for having a better equity base, retained profits as reserve fund and provisioning funds for future expansion. These kind of measures will help in building their internal financial strength.



CHECK YOUR PROGRESS

Q.4 : What are the consequences of Industrial sickness?

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6.8 LET US SUM UP

In this unit we have discussed the following aspects–

- In this unit we have learnt about the industrial sickness in SSI units. The causes for industrial sickness have been discussed together with the corrective measures to be adopted to overcome this problem.
- Industrial sickness is a major problem.

- It has serious consequences.
- It affects the morale of the entrepreneurs. Economic loss for industrial sickness is huge. It needs to be reduced.
- Training the entrepreneurs on development of the required managerial skills will also help a lot in improving the scenario.



6.9 FURTHER READING

1. Business Environment- Text and Cases; Francis Cherunilam; Himalaya Publishing House; Mumbai, 2014
2. Business Environment; SarojUpadhyay; Asian Books Private Ltd. New Delhi, .2nd Edition, 2005
3. Business Environment; Pippa Riley; Viva Books; New Delhi, Ist Edition, 2011



6.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: Industrial sickness is related with a phenomenon that implies industries are not able to earn profits, rather suffering from accumulated cash losses. In 1985 the Sick Industrial Companies (Special Provision) Act, 1985 was enacted. This Act offered a definition of sickness. According, to this Act, "Sick Industrial Company" indicates an industrial company (registered for not less than seven years) showing accumulated losses equal to or exceeding its net worth at the end of any financial year, and suffering cash losses also during that financial year and the immediately preceding yearequal to or exceeding its net worth at the end of a financial year, and has suffered cash losses also during that financial year and the immediately preceding year"

Ans to Q No 2: Two causes of industrial sickness are as follows

i. Easy approval of projects without looking for the details

ii. Underutilization of capacity by the enterprises

Ans to Q No 3:

a. The change in the government policies affects adversely the functioning of SSI units, hence these units become sick. For example, the reduction by the Govt. in the list of products reserved for being produced under SSI units in India has resulted in the sickness of numerous industrial units. These units are unable to face the completion from the large scale industries and the Multinational Corporations (MNC's).

b. Underutilization of capacity is an important factor responsible for sickness. Most of the industrial sectors do not utilize the full capacity due to certain reasons e.g. lack of working capital, lack of demand, and shortage of raw materials. Those industrial units which are permanently unable to utilize the optimum level of capacity slowly enter into sickness.

Ans to Q No 4: Consequences of industrial sickness are as follows:

a. Creating disincentive among the entrepreneurs
b. Unemployment problem
c. Widespread labour unrest
d. Wastage of huge resources
e. Creating adverse impact on the other related units
f. Causing huge financial losses to banks



6.11 MODEL QUESTIONS

Q 1: What is Industrial Sickness? How is it defined in Sick Industrial Companies (Special Provision) Act, 1985?

Q 2: Explain the warning signals of Industrial Sickness.

Q 3: What are the causes of industrial sickness? Explain them.

Q 4: Give some corrective measures to prevent industrial sickness in SSI Units.

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UNIT 7: PATENTS AND TRADEMARKS

UNIT STRUCTURE

7.1 Learning Objectives

7.2 Introduction

7.3 Meaning and Definition of Patents

7.4 Patent Protection in India

7.5 Meaning and Definition of Trade Marks

7.6 Objectives of Trade Marks Act, 1999

7.7 Registration of Trade Marks

7.8 Prevention of the Use of Fraudulent Trade Marks

7.9 Patents, Trademarks and International Business

7.10 Let Us Sum Up

7.11 Answer to Check Your Progress

7.12 Further Reading

7.13 Model Questions

7.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- define Patents.
- defineTrade Marks
- state the objectives of the Trade Mark Act, 1999.
- explain the legal aspects of registration of trade marks.
- understand the legal aspects for prevention of the use of fraudulent trade marks
- describe the intellectual properties

7.2 INTRODUCTION

In business environment it is very important that the people associated with business know about the concepts of trade mark, patent etc. The patents and trade marks need to be protected legally. We need to understand the measures in the Indian legal system towards protection of

patents and trade marks. In this Unit, in addition to understanding the concepts of patents and trade marks, we shall try to understand the various legal provisions regarding registration of trade marks and measures for prevention of use of fraudulent trade marks. Patents and trade marks are intellectual properties. Protection of intellectual property rights has become an issue of wide discussion in the current context of globalization. In this unit, we shall discuss this aspect also.

7.3 MEANING AND DEFINITION OF PATENTS

Any new, useful, and non-obvious process, machine, article of manufacture, or composition of matter which has not been done by anyone previouslyneeds to be legally protected.Take the example of a pharmaceutical company developing a new medicine for treatment of tuberculosis. In order to develop the medicine, the company is required to invest in research and development. The company will have to recover the cost by commercializing the product. If the medicine is not patented, some other business firms also may launch the duplicate of the same medicine without making investment in research and development to commercially exploit the situation. A patent is a legal protection granted for the new invention. It is an exclusive right and a legal document given by the government of a sovereign state to make, use or sell the patented product/process for a specified period of time. Patent helps in recovering the cost of invention which is quite substantial in many cases and thereby making profits. In addition to giving the right to the patent holder, the system of granting patents helps the development of the society also. It helps in encouraging research and competition. This is essential for the wellbeing of the society.Patent law is one branch of the larger legal field known as intellectual property, which also includes trademark and copyright law.

An invention to be presentable must satisfy some conditions as follows.

i. It has to be new

ii. It has to be useful to the society

iii. It has to be non-obvious to a person possessing an average skill in the art.

7.4 PATENT PROTECTION IN INDIA

Patent protection in India was introduced in the 18th century. It has a long history. Formally patent protection in India came along with the enactment of the Patents Act 1970. The law has since been amended and consolidated to meet the requirements of changing time. Some significant amendments had to be made after the agreement on intellectual property rights. These emerged from the Uruguay Round of GATT that resulted in formation of WTO.

The Patents Act makes it clear that patents are not granted merely to provide the patentees the monopoly rights but to encourage inventions and competition so that cost to the public is ultimately reduced. The Patents Act of 1970 sought to protect the drugs, pharmaceutical and chemical industries from foreign monopolies in the field.

The Indian Patents Act, 1970 as amended and effective from January 1, 2005, lays down the following among others.

i. The eligibility, procedures and conditions for grant of patents: According to the Act, an invention means a new product or process involving an inventive step and capable of industrial application. Inventive step requires technical advance as compared to existing knowledge or economic significance or both that makes the invention not obvious.

ii. Inventions and other subjects not patentable: Inventions which are contrary to public interest, a mere scheme or a rule or a method or a method of playing game, duplication of traditionally known components etc. are not patentable under the Act.

iii. Rights and obligations of patentee: The Act normally prevents the third parties from using, making, selling or importing the patented product/process without the consent of the patentee.

iv. Working of the Patent: A patent is granted after careful consideration of several factors. Working of patent means that the patented product is produced in the country itself and is made available at reasonable prices and within reasonable time.



CHECK YOUR PROGRESS

Q.1 : State the conditions for an invention to be patentable.

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7.5 MEANING AND DEFINITION OF TRADE MARKS

The environment in which goods and services are traded or exchanged or bought and sold can be termed as business environment. There are numerous players and numerous goods and services traded in the market. Each of these bought and sold in the market are differentiated form each other with the help of trade marks. A sign, symbol, design, graphics, words or a combination of these which one can use to distinguish goods and services of one manufacturer or service provider from those of others, is known as trade mark. It can be represented graphically in the form of a logo or a signature. A registered trademark must be-

i. Distinctive instead of descriptive,

ii. Affixed to the item sold, and

iii. Registered with the appropriate authority to obtain legal ownership and protection rights.

iv. Must be renewed after a fixed period of time.

Brands and trade marks are used quite extensively in the current business environment. The definitions of some of the important terms as given in the Glossary of Marketing Terms published by the American Marketing Association and the Indian Trade Marks Act 1999 are given below.

i. Brand: A brand is a name, term, sign, symbol, or design or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors

ii. Brand Name: Brand name is that part of a brand which is utterable, can be vocalized.

iii. **Trade Mark:** A trade mark is a brand or part of a brand that is given legal protection because it is capable of exclusive appropriation. A trade mark protects the sellers' exclusive rights to use the brand name and/or brand mark. According to the Trade Marks Act 1999, a trade mark means a mark capable of being presented graphically and which is distinct from those of others. These distinguishing elements may includethe shape of the marks, colour composition etc.



CHECK YOUR PROGRESS

Q.2 : Define Brand.

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Q.3 : State the characteristics of a registered trade mark.

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7.6 OBJECTIVES OF TRADE MARK ACT, 1999

The Indian law relating to trade marks has been amended and consolidated and Trade and Merchandise Marks Act, 1958 was replaced by The Trade Marks Act 1999. The Trade Marks Act 1999 is an Act to amend and consolidate the law relating to trade marks, to provide for registration and better protection of trade marks for goods and services and for the prevention of the use of fraudulent marks. The Act extends to the whole of India. Basically, the objectives of The Trade Marks Act 1999 are to provide for:

i. The registration and protection of trade marks for goods and services

ii. The prevention and use of fraudulent trade marks

7.7 REGISTRATION OF TRADE MARKS

The Controller General of Patents, Designs and Trade Marks, appointed by the Government of India, is the Registrar of Trade Marks for the purpose of Trade Marks Act. Any person claiming to be the proprietor of trade mark and desirous of registering it can apply to the Registrar in the prescribed manner for registration of the trade mark. The duration of the registration of a trade mark is ten years, but may be renewed from time to time in accordance with the provisions of the Act. Otherwise the trade mark may be removed from the registrar.

A person claiming to possess a trade mark which is not registered will not be entitled to institute any proceeding to prevent or to recover damages for the infringement of the unregistered trade mark.

The registration of a trade mark entitles the following to the registered user of the trade mark

i. The exclusive right to use the registered trade mark subject to conditions and limitations for use as may be specified by the provisions of the Act

ii. The right to obtain relief in respect of infringement of the trade mark in the manner as provisioned in the Act



CHECK YOUR PROGRESS

Q.4 : What are the objectives of the Trade Mark Act, 1999?

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7.8 PREVENTION OF USE OF FRADULENT TRADE MARKS

Offences under the Act are punishable by imprisonment and fine. Falsifying the facts and falsely applying for trademarks etc. are punishable under the Act. Legal protection of intellectual property rights provides the owners the exclusive right to their commercial use. This is a reward for the

innovation or marketing acumen of the registered users. Any new invention or an established brand needs to be protected from the duplicates and counterfeits. Adequate measures should be there in the business environment. The Trade Marks Act has provisions for prevention and use of fraudulent trade marks. Some of the provisions regarding false trade description, falsifying a trade mark, false application etc. are stated below.

False trade description

The Trade Mark Act 1999 defines 'False trade description'. False trade description may be interpreted in the following situations among others.

i) A trade description which is untrue or misleading in a material respect as regards the goods or services to which it is applied. Or

ii) Any alteration of trade description as regards the goods or services to which it is applied, whether by way of addition, effacement or otherwise, where that alteration makes the description untrue or misleading in a material respect.

Falsifying a trade mark

A person shall be considered to falsify a trade mark in either of the following two conditions -

(a) Without the assent of the proprietor of the trade nearly makes that trade mark or a deceptively similar mark: or

(b) Falsifies any genuine trade mark, whether by alteration, addition, effacement or otherwise

Falsely applying for trade marks

A person shall be considered to falsely apply to goods a trade mark who, without the assent of the proprietor of the trade mark -

(a) Applies for such trade mark or a deceptively similar mark, to goods or any package containing goods;

(b) Uses any package bearing a mark which is identical with or deceptively similar to the trademarks of such proprietor, for the purpose of packing, filling, or wrapping therein any goods other than the genuine goods of the proprietor of the trade mark

7.9 PATENTS, TRADE MARKS AND INTERNATIONAL BUSINESS

After the formation of the World Trade Organization and the rounds of discussion as regards the General Agreement on Tariffs and Trade, protection of intellectual property rights has become an issue of wide discussion.

Intellectual Property Rights (IPR) may be defined as 'information with commercial value.' IPRs are characterized as a composite of 'ideas, inventions and creative expression". It gives the owners the right to use it and prevents others from access to or use of protected subject matter. IPRs are legally protected by patents, copyrights, industrial designs, geographical indications and trade marks.

The Uruguay Round Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs) covers seven intellectual properties

i. Copyright and related aspects

ii. Trade Mark

iii. Geographical Indications

iv. Industrial Designs

v. Patents

vi. Layout Designs (topographies) of integrated circuits

vii. Undisclosed information including trade secrets

India meets the requirements of TRIPs Agreement as India has the Copyright Act with necessary provisions amended from time to time. As stated earlier, trade and Merchandise Act of 1958 was replaced by a new Act, namely, The Trade Marks Act 1999. The new Act has provisions for protection of service marks also. Under the Trade Marks Act, an Appellate Board, known as the Intellectual Property Appellate Board has been established by the government of India to exercise the jurisdiction, powers and authority conferred on it by or under this Act.



CHECK YOUR PROGRESS

Q.5 : Define IPR.

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7.10 LET US SUM UP

The following aspects have been discussed in this unit–

- A patent is a legal protection granted for a new invention subject to meeting certain requirements. It is an exclusive right and a legal document given by the government of a sovereign state to make, use or sell the patented product/process for a specified period of time.
- Patent helps in recovering the cost of invention which is quite substantial in many cases and thereby making profits.
- In addition to giving the right to the patent holder, the system of granting patents helps the development of the society also. It helps in encouraging research and competition. This is essential for the wellbeing of the society.
- Patent law is one branch of the larger legal field known as intellectual property, which also includes trademark and copyright law. The Indian Patent Act, 1970 and effective from January 1, 2005 has the required provisions for matters related with grant of patents.
- A sign, symbol, design, graphics, words or a combination of these which one can use to distinguish goods and services from those of others, is known as trade mark. It can be represented graphically in the form of a logo or a signature.
- The Trade Marks Act, 1999 has the related provisions for registration of trade marks and prevention of their misuse.



7.11 FURTHER READING

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2. Cornish.W, Llewelyn. D and Pain. T. Intellectual Property- Patents, Copyright, Trade Marks and Allied Rights (8th Edition). JBA Publishers, New Delhi. (2013)
3. Ahuja. V.K. Intellectual Property Rights in India (2nd Edition). JBA Publishers, New Delhi. (2015)



7.12 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: An invention to be patentable must satisfy some conditions as follows.

a) It has to be new

b) It has to be useful to the society

c) It has to be non-obvious to a person possessing an average skill in the art.

Answer to Q2

A brand is a name, term, sign, symbol, or design or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors

Answer to Q3

The characteristics of a registered trademark are as follows.

a) It is distinctive instead of descriptive,

b) It is affixed to the item sold, and

c) It is registered with the appropriate authority to obtain legal ownership and protection rights.

d) It needs to be renewed after a fixed period of time.

Answer to Q4

The objectives of The Trade Marks Act 1999 are to provide for :

a) The registration and better protection of trade marks for goods and services

b) The prevention and use of fraudulent trade marks

Answer to Q5

Intellectual property rights (IPR) may be defined as 'information with commercial value.'



7.13 MODEL QUESTIONS

Q 1: What are Trade Marks?

Q 2: What is a Patent?

Q 3: What are the important provisions of the Indian Patents Act, 1970 as amended and effective from January 1, 2005?

Q 4: State the importance of patents and trademarks in the context of globalization.

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UNIT 8: FINANCIAL ENVIRONMENT

UNIT STRUCTURE

8.1 Learning Objectives

8.2 Introduction

8.3 Meaning of Monetary and Fiscal Policy

8.4 Meaning of Financial Market

8.5 Types of Financial Markets

8.6 Meaning of Capital Market

8.7 Features of Capital Market

8.8 Functions of Capital Market

8.9 Meaning of Money Market

8.10 Organized and unorganized money market in India

8.11 Features of Indian Money Market:

8.12 Functions of Money Market in India

8.13 Let Us Sum Up

8.14 Answers to Check your Progress

8.15 Further Reading

8.16 Model Questions

8.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- define monetary and fiscal policy
- understand the meaning of financial market.
- explain the meaning, features and importance of capital market.
- discuss the meaning, types, features and importance of money market.

8.2 INTRODUCTION

Condition of the financial environment in a country highlights the condition of the financial markets as well as the economy of the country. Understanding the monetary and fiscal policies helps us in understanding

the financial system. The financial market in the country is divided into two broad categories i.e., capital market and money market. The money market in India is further dived into two categories i.e., organized and unorganized money market. In this Unit, we shall discuss the features, functions of financial market and its importance in the context of overall business environment.

8.3 MEANING OF MONETARY AND FISCAL POLICY

Before discussing various aspects of financial markets, let us briefly discuss monetary and fiscal policy. Fiscal policy involves the government changing tax rates and levels of government spending to influence aggregate demand in the economy. Fiscal policy is a broad term used to refer to the tax and spending policies of the federal government. 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. Fiscal policy and monetary policy are the two tools used by the government to achieve its macroeconomic objectives. While for many countries the main objective of fiscal policy is to increase the aggregate output of the economy, the main objective of the monetary policies is to control the interest and inflation rates. Monetary policy involves changing the interest rate and influencing the money supply.

8.4 MEANING OF FINANCIAL MARKET

Financial environment is an important part of an economy, where the major participants are the business firms, investors and the market. An important ingredient of the financial environment is the financial market. Financial markets can be defined as those markets where buyers and sellers trade or buy and sell various long term and short term securities such as equities, bonds, currencies and derivatives. Financial markets have their own rules and regulations for transactions.

The Indian financial market comprises mainly of the following.

i. Credit market

ii. Money market

iii. Capital market

iv. Foreign exchange market

v. Debt market

vi. Derivatives market

Besides the above, there are also some markets like the household finance market, NBFC market, and insurance market. All these are important in the financial environment of an economy. All these markets are not yet as developed and regulated as the credit/foreign exchange/money/capital market etc. Banks have been allowed to undertake insurance business. The bank assurance market is also emerging. In this unit we shall discuss mainly the capital market and money market.

8.5 TYPES OF FINANCIAL MARKETS

Financial markets can broadly be divided into two categories.

1. Capital Markets
2. Money Markets

8.6 MEANING OF CAPITAL MARKETS

Capital market is generally understood as the market for long term funds. However, sometimes the term is used in a very broad sense to include the market for short term funds also.

Capital markets are one in which individuals and institutions, generally buy and sell long term equities and securities. Here individuals and institutions purchase and sell securities to raise funds. It is an institutional arrangement to borrow and lend money for a longer period of time. Capital market deals in ordinary securities such as shares and debentures, bonds and government securities. The funds which flow into the capital market come from individuals, the merchant banks, the commercial banks and non-bank financial intermediaries, such as insurance companies, finance houses, unit trusts, investment trusts, venture capital firms, leasing finance, mutual funds, building societies, etc. Capital markets are of two types:

i. Primary market, and

ii. Secondary market.

Primary markets are one in which new securities and issues are bought and sold. The types of issues in the primary market are listed below.

- Initial public offer (IPO) (in case of an unlisted company),
- Follow-on public offer (FPO),
- Rights offer such that securities are offered to existing shareholders,
- Preferential issue/ bonus issue
- Composite issue, that is, mixture of a rights and public offer, or offer for sale (offer of securities by existing shareholders to the public for subscription).

Secondary Market is one in which securities are bought and sold after being initially offered to the public in the primary market and/or listed on the stock exchange.

8.7 FEATURES OF CAPITAL MARKET

Some of the features or characteristics of capital markets in India are briefly stated and discussed below.

1. **Long-term investment:** Capital markets deal in securities which are of medium or long-term duration. This means that organizations, institutions and individuals invest their funds in the capital market for a long term.
2. **Government Regulations:** Capital Markets in India have to work under the regulations formed by the Government of India. For example the stock exchanges in India are regulated by the SEBI (Securities and Exchange Board of India) which is a government body.
3. **Link between the investors/ savers and borrowers:** Capital market is an important connecting link between the investors and the borrowers. Those who are interested in earning some extra income from the savings, they can invest or utilize their money in purchasing shares, debentures and other securities. On the other

hand those who want funds for running their business can get it from the capital market.

4. **Utilizes the services of intermediaries:** Intermediaries such as brokers, underwriters, depositories etc. play an important role in the capital markets by providing the role of facilitators. In addition to the intermediaries, there are some promotional bodies like training Institute of Bombay Stock Exchange, National Stock Exchange, Stock Holding Corporation etc. They inform, help and guide the investors on where to invest, when to invest, how to invest etc.

5. **Determinants of capital formation:** Capital market is a platform, which offers the investors the opportunities to invest their surplus funds in the market. The activities of the capital market are an important indication of the rate of capital formation in the country. In the developed countries, the capital markets are well developed. The pace of economic development is conditioned, among other things, by the rate of long term investment and capital formation. And capital formation is conditioned by investible funds. The capital market serves a useful purpose by pooling the capital resources of the country and making the resources available to the enterprising investors.



CHECK YOUR PROGRESS

Q.1 : What is Financial Market?

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Q.2 : What are the instruments that capital markets deal with?

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Q.3 : What are the two types of capital market?

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8.8 FUNCTIONS OF CAPITAL MARKET

Capital market plays a crucial role in the development of the economy of a country. A strong capital market is the indication of the development and strength of the economy. Well-developed capital markets help in augmenting resources by attracting funds on a global scale. Not only that, it facilitates global lending too. The Euro-currency and Eurobond markets are international finance markets in terms of both the supply and demand for funds. The Indian capital market has undergone remarkable changes in the post-independence era. The government has taken certain steps to develop the market to meet the growing requirement of capital for fast industrialization. Development of the economy has also facilitated the development of the capital market in the last few decades. There were some scams in the capital market. Handling those scams helped in adopting reformative measures. The functions of capital market can be understood with the help of the following points.

1. **Helps in mobilizing the funds and savings:** Capital market helps in mobilizing the surplus funds and savings of the people through channels of investment in a systematic manner. In the absence of this, the investors and the common people would not have got the opportunity to channelize their funds to earn handsome returns and dividends.
2. **Systematic investment of funds:** Capital market provides opportunities to the investors to utilize their funds in a systematic manner so that it can be properly utilized in various avenues available in the market. The investors can make investment in the shares of IT companies or the steel companies. Each sector has different opportunities and challenges.
3. **Helps in capital formation:** An important function of capital market is that it helps in capital formation in the country. Capital market helps in mobilizing the idle funds of the investors which is used in funding the various crucial sectors of the economy such as agriculture, industry etc. For the investments to yield high returns, it requires sound project proposals and execution by the enterprising firms.

4. **Opens up opportunities for investment:** Capital market opens up various investment opportunities to the investors. Capital markets provide many investment opportunities such as mutual funds, insurance, shares, debentures, bonds, government securities etc. Each of these instruments have different advantages and challenges. Some of them are risky. Some of them provide stable returns, but at a low rate. The investors have to look into various aspects and decide the best possible mix.
5. **Availability of funds:** Capital market helps in ensuring continuous availability of fund to both the buyers and the sellers. An investor gets easy liquid funds whenever they require it and similarly a seller can also raise funds from the market whenever a need arises in the business.
6. **Service provision:** As an important financial set up, capital market provides various types of services. It includes underwriting services, consultancy services, export finance, etc. These services help the enterprising firms to generate resources and the investors to avail the facilities provided by the institutions in the capital market.

8.9 MEANING OF MONEY MARKET

Money market is the market for short term funds as distinct from Capital Market which deals in long term funds. In simple words money market is that segment of the financial market which deals in short term financial instruments having high liquidity. The participants of the money market purchase and sell financial securities of very short term maturity and the period varies from a few days to not more than a year.

Money Market is a center for dealings, mainly of a short term monetary assets. It meets the short term requirements of the borrowers and provides liquidity or cash to the lenders. It is the place where short term surplus investable funds at the disposal of the financial and other institutions are bid by borrowers again comprising individuals, institutions and also by the government.'

8.10 ORGANIZED AND UNORGANIZED MONEY MARKET IN INDIA

Before we discuss the features of Indian money market point wise, it would be better to understand the organized and the unorganized money market in India.

The Indian Money market is divided into two broad sections. The first section is known as the organized money market and the second section is known as the unorganized money market. Brief discussions of both these sections are given below.

Organized money market:

The organized sector of the money market is divided into the following sub markets.

1. *Treasury bill market:* Treasury bills are zero risk instruments issued by the Central Government. The maturity period of the treasury bills are very short and it ranges from three months to one year. Treasury bills are issued at a price less than their face value and the difference between the issue price and the maturity value is treated as the interest earned by the investors. The buying value of the Treasury bill is determined by the bidding process through auctions.
2. *Bankers' Acceptance:* These are like bills of exchange issued by the non-banking financial companies and guaranteed by the banks, where the buyer promises to pay a fixed amount of money to the seller of the instrument after a certain period and the banker acts as a guarantor that the buyer will repay the amount. These securities come with the maturities between 30 and 180 days.
3. *Certificate of Deposit market:* These are similar to fixed deposit accounts or tem deposits where the depositor keeps his or her savings for a fixed period of time with a fixed rate of interest. Certificate of deposits are like promissory notes where the banker promises to pay a fixed amount of money specified in the certificate after a fixed period of time with interest to the bearer. These certificates are issued with maturity period of 3 months to 5 years.

4. *Repurchase Agreements (REPO):* It is a short term arrangement where the buyers and the sellers agree upon buying and selling securities at a fixed price after a fixed period. Here the seller sells the securities to the buyer with a promise that the seller will repurchase the securities after a fixed period at a fixed price. Here the buyer also promises that he will sell the securities to the seller.
5. *Commercial Papers:* Commercial papers are short term unsecured securities issued by the financial companies. These are promissory notes where the issuing companies promise to pay a fixed amount of money after a fixed period. Commercial papers are issued at a lesser price than the face value. They come with fixed maturity period ranging from 1 day to 270 days.
6. *Discount and Finance House of India (DFHI):* It was established in 1988 by RBI and is jointly owned by RBI, public sector banks and all India financial institutions which have contributed to its paid up capital. It deals in treasury bills, commercial bills, CPs, short term deposits, call money market and government securities.
7. *Money Market Mutual Funds (MMMFs):* Money Market Mutual Funds (MMMFs) were introduced by RBI in 1992 but since 2000, they are brought under the purview of the SEBI. They provide additional short-term avenue to individual investors.

Unorganized money market is another important segment of the Indian money market which caters to the short term financial requirement of the country.

A brief discussion of the various constituents of the unorganized money market is as follows.

1. *Indigenous Bankers:* Indigenous bankers may be individuals or firms which operate privately. They do not come under the purview of the Reserve Bank of India. They not only lend short term loans but also accept deposits from the public.
2. *Money Lenders:* They are one of the oldest operators in the Indian money market. They provide loans for both productive and

unproductive purposes. They are very popular in our rural India. The interest rates charged by the money lenders are very high. The borrowers are mostly poor farmers, artisans, petty traders and manual workers.

3. *Some Non - Banking Financial Companies (NBFCs)* consist of: -

(i) *Chit Funds:* Chit funds are savings institutions. It has regular members who make periodic subscriptions to the fund. The beneficiary may be selected by drawing of lots. Chit fund is more popular in Kerala and Tamilnadu. RBI has no control over the lending activities of chit funds.

(ii) *Nidhis:* Nidhis operate as a kind of mutual benefit for their members only. The loans are given to members at a reasonable rate of interest. Nidhis operate particularly in South India.

(iii) *Loan Or Finance Companies/Loan companies:* they are found in all parts of the country. Their capital consists of borrowings, deposits and owned funds. They give loans to retailers, wholesalers, artisans and self-employed persons. They offer a high rate of interest along with other incentives to attract deposits. They charge high rate of interest.



CHECK YOUR PROGRESS

Q.2 : What is the basic difference between money market and capital market?

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Q.5 : What is Treasury Bill?

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8.11 FEATURES OF INDIAN MONEY MARKET

The major features of Indian money market are stated and discussed below.

1. **Presence of large organized sector:** one of the important characteristics of the Indian money market is the presence of the large organized sector. This sector meets the short term financial requirement. Indigenous bankers and money lenders play a crucial role in the money markets in India.

2. **Lack of integration and coordination:** Indian money market has many segments but the segments do not have much of coordination and integration with one another. The Indian money market consists of segments such as the SBI and its subsidiaries, the foreign exchange banks, the co-operative banks and indigenous banks. All of them work independently. There are some common guidelines. However, there remains a big scope for improving the integration.

3. **Seasonal fluctuation of credit:** The Indian money market is seasonal in character, i.e., when the demands of the loanable funds are high; the rates of interest are very high as the availability of credit is less. But when the demand of the loanable funds is less, than the interest rates come down. The Reserve Bank of India tries to control the fluctuations in the interest rates by introducing or providing money into the market during the busy season and withdrawing the same during the slack season.

4. **Diverse rates of interest:** Another important characteristic of the money market in India is the existence of the different rates of interest for the short term credit. This is basically due to the lack of integration between the various segments in the money market and immobility of credit or funds from one segment to another.

5. **Volatility of the call money market:** The inter-bank call money market is the market for short-term funds, known as 'money at call and short notice'. Two components of this market are the call market or overnight market and short notice market. The borrowing rate in this market is known as the call money rate. This rate is determined by the market forces, that is, by the forces of demand and supply. The Reserve Bank of India tries to control the fluctuations in the

interest rates by providing additional funds in the market when the demand is very high in the call money market.

6. **Meets the short term financial requirement:** This is one of the basic characteristic of the money markets, as it always deals with very short term financial instruments and financial needs.

8.12 FUNCTIONS OF MONEY MARKET IN INDIA

A well-developed money market is the basis for an effective monetary policy. It is in the money market that the Central Bank i.e. the Reserve bank of India comes into contact with the financial sectors of the economy. The Reserve bank of India achieves its economic objectives by varying the liquidity in the market and thereby the bank influences the cost and availability of credit. Money market plays an important role in our economy. Some of the major functions of the Indian money market are:

1. Money market helps in utilizing the savings of the people. By providing various kinds of credit instruments, a money market augments the supply of funds.
2. Money market helps in proper implementation of the monetary policy of the country. The seasonal variations in the flow and demand of funds are managed. It helps to prevent wide fluctuations in the interest rates.
3. Money market helps in meeting the short term financial requirements of the government.
4. Money market helps in maintaining the liquidity in the economy.
5. A money market functions like a dam-canal-irrigation system. Like a reservoir, it collects and augments the resources so as to channelize the resources wherever required.



8.13 LET US SUM UP

- Fiscal policy and monetary policy are the two tools used by the government to achieve its macroeconomic objectives. While for many

countries the main objective of fiscal policy is to increase the aggregate output of the economy, the main objective of the monetary policies is to control the interest and inflation rates. Monetary policy involves changing the interest rate and influencing the money supply.

- Financial markets can be defined as those markets where buyers and sellers trade or buy and sale various long term and short term securities such as equities, bonds, currencies and derivatives.
- Financial markets have their own rules and regulations for transactions, costs and fees and forces of the market which determine the prices of the securities.
- Financial markets can broadly be divided into two categories i.e., Capital Markets and Money Markets.
- Money markets in India are divided into two categories i.e., Organized and Unorganized Money Market.



8.14 FURTHER READING

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8.15 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: "Financial markets can be defined as those markets where buyers and sellers trade or buy and sell various long term and short term securities such as equities, bonds, currencies and derivatives.

Answer to Q2 : "Capital market deals in ordinary securities such as shares and debentures, bonds and government securities.

Answer to Q3 : "Capital markets are of two types: i. Primary market and ii. Secondary market.

Answer to Q4 : Money market is the market for short term funds as distinct from Capital Market which deals in long term funds.

Answer to Q5 : Treasury bills are zero risk instruments issued by the Central Government. The maturity period of the treasury bills is very short and it ranges from three months to one year.



8.16 MODEL QUESTIONS

Q.1. What are financial markets?

Q.2. What is capital market?

Q.3. What are the different types of capital market?

Q.4. Explain the features of capital market.

Q.5. Discuss the functions of capital market.

Q.6. State the meaning of money market.

Q.7. Explain the key features of money market.

Q.8. State the functions of money market in India.

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UNIT 9: LABOUR ENVIRONMENT

UNIT STRUCTURE

9.1 Learning Objectives

9.2 Introduction

9.3 Concept of Labour Market

9.4 Labour Legislations

- 9.4.1 Principles of Labour Legislations
- 9.4.2 Classification of Labour Legislations

9.5 Concept of Labour Welfare

9.6 Concept of Industrial Relations

9.7 Scope, Objectives and Need of Industrial Relations

9.8 Meaning and Definition of Trade union

9.9 Concept of Workers Participation in Management

9.10 Levels and Forms of Workers Participation in Management

9.11 VRS and Golden Handshakes

9.12 Answers to Check your Progress

9.13 Further Reading

9.14 Model Questions

9.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- learn the concept of labour market
- discuss the principles of labour legislations
- classify labour legislations
- define labour welfare
- define industrial relations
- discuss the importance of industrial relations
- define trade union
- state the concept of workers' participation in management
- describe VRS and Golden Handshakes

9.2 INTRODUCTION

The labour environment is an important component of business environment. The quality of the work force helps in achieving the goals of the organization. The labour force should be extended the benefits of labour legislations. They should be given opportunities to take part in the decision making process. The means and modalities should be worked out by the management. In this unit, we shall discuss aspects of labour legislations, trade unions, workers' participation in management, VRS etc.

9.3 CONCEPT OF LABOUR MARKET

A labour market is the place where workers and employers interact with each other for procure the services of the work force. Employers compete to hire the best, and the workers compete for the best satisfying job. Thus, a labour market in an economy functions with demand and supply of labour. In this market, labour demand is the firms' demand for labour and supply is the supply of workers as labour. The supply and demand of labour in the market is influenced by changes in the bargaining power of both the parties. Suppose in a city, lot of civil construction activities are going on. The city will attract the labour contractors and the workers. If the supply of labour is more, labour cost will be less. If the number of workers is less than the required number, the cost of labour will be high and the industry will suffer for shortage of labour.

9.4 LABOUR LEGISLATION

Establishment of social justice has been the principle which has guided the origin and development of labour legislation in India. The setting up of the International Labour Organisation (ILO) gave an impetus to the consideration of welfare and working conditions of the workers all over the world and also led to the growth of labour laws in all parts of the world, including India. Besides that, the principles of social justice are also enshined in our constitution through directive principles of State Policy.

9.4.1 Principles of Labour Legislation

1. ***Principle of Protection:*** The principle of protection suggests enactment of labour legislation to protect those workers who are not able to protect their interests on their own and also workers, in particular industries against the hazards of industrial processes.

2. ***Principle of Social Justice:*** The principle of social justice implies establishment of equality in social relationships. It aims at removing discrimination suffered by particular groups of labour. History is replete with examples where certain groups of society or labour have been subjected to various sorts of disabilities as compared to other groups or workers in general.

3. ***Principle of Welfare:*** Although the protective and social security laws have the effect of promoting labour welfare, special labour welfare or labour welfare laws have also been enacted, with a view to providing certain welfare amenities to the workers, and often to their family members also. The main purpose behind the enactment of labour laws on this principle is to ensure the provision of certain basic amenities to workers at their place of work and also, to improve the living conditions of workers and their family members.

4. ***Principle of Social Security:*** One of the outstanding measures to mitigate the hardship of labour force is to make available social security benefits under the coverage of legislation. Social security legislation may be kept under two broad categories - social insurance legislation and social assistance legislation. In social insurance, benefits are generally made available to the insured persons fulfilling certain eligibility conditions. In social assistance also, the beneficiaries receive benefits as a matter of right, but they do not have to make any contributions. The finance is made available by the state or a source specified by the state. Social assistance benefits are generally paid to persons of insufficient means and on consideration of their minimum needs.

5. ***Principle of Economic Development:*** Labour laws have also been enacted keeping in view the need for economic and industrial development of particular countries. Improvement of physical working conditions, establishment of industrial peace, provision of machineries for settlement of industrial disputes, formation of forums of workers' participation in management, prohibition of unfair labour practices, restrictions on strikes and lock-outs, provision of social security benefits and welfare facilities, certification of collective agreements and regulation of hours of work have direct or indirect bearing on the pace and extent of economic development.

6. ***Principle of International Obligation:*** This principle postulates enactment of labour laws with a view to giving effect to the provisions of resolutions, adopted by international organisations like ILO, UN and similar other bodies. In general, the countries ratifying the resolutions or agreements are under the obligation to enforce them. One of the instruments of doing so is the enactment of laws.



CHECK YOUR PROGRESS

Q.1 : How can change in supply and demand of labour influence a labour market?

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Q.2 : What is the principle of International Obligation?

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9.4.2 Classification of Labour Legislations

On the basis of specific objectives which it has sought to achieve, the labour legislations in India can be classified into the following categories:

I. *Laws related to Industrial Relations such as:*

- Trade Union Act, 1926
- Industrial Employment Standing Order Act, 1946.
- Industrial Disputes Act, 1947.

II. *Laws related to Wages such as:*

- Payment of Wages Act, 1936
- Minimum Wages Act, 1948
- Payment of Bonus Act, 1965.
- Working Journalists (Fixation of Rates of Wages) Act, 1958

III. *Laws related to Working Hours, Conditions of Service and Employment such as:*

- Factories Act, 1948.
- Plantation Labour Act, 1951.
- Mines Act, 1952.
- Industrial Employment (Standing Orders) Act, 1946
- Merchant Shipping Act, 1958.
- Motor Transport Workers Act, 1961.
- Contract Labour (Regulation & Abolition) Act, 1970.
- Sales Promotion Employees Act, 1976.
- Dock Workers (Safety, Health & Welfare) Act, 1986.
- Dock Workers (Regulation of Employment) Act, 1948
- Mines and Mineral (Development and Regulation Act, 1957
- Building and Other Construction Workers Welfare Cess Act, 1996
- Private Security Agencies (Regulation) Act, 2005

IV. *Laws related to Equality and Empowerment of Women such as:*

- Maternity Benefit Act, 1961
- Equal Remuneration Act, 1976.

V. *Laws related to Deprived and Disadvantaged Sections of the Society such as:*

- Bonded Labour System (Abolition) Act, 1976
- Child Labour (Prohibition & Regulation) Act, 1986
- Children (Pledging of Labour) Act, 1933

VI. *Laws related to Social Security such as:*

- Workmen's Compensation Act, 1923.
- Employees' State Insurance Act, 1948.
- Employees' Provident Fund & Miscellaneous Provisions Act, 1952.
- Payment of Gratuity Act, 1972.
- Employers' Liability Act, 1938
- Beedi Workers Welfare Cess Act, 1976
- Beedi Workers Welfare Fund Act, 1976
- Cine workers Welfare Cess Act, 1981
- Cine Workers Welfare Fund Act, 1981
- Fatal Accidents Act, 1855
- Limestone and Dolomite Mines Labour Welfare Fund Act, 1972
- Mica Mines Labour Welfare Fund Act, 1946 29
- Personal Injuries (Compensation Insurance) Act, 1963
- Personal Injuries (Emergency Provisions) Act, 1962
- Unorganized Workers' Social Security Act, 2008

The above classification indicates the coverage and range of labour legislations in India. Having a look at the names of the legislations only, you can see the relevance of principles of labour legislations.

9.5 CONCEPT OF LABOUR WELFARE

The meaning and implications of labour welfare differ widely with times, regions, industries, countries, social values and customs, the general economic development of the people and the political ideologies prevailing at particular moments. As such, a precise definition is rather difficult.

However, let us study some of the definitions:

- According to Labour Investigation Committee. "Labour welfare implies anything done for the intellectual, physical, moral and economic betterment of the workers, whether by the employers, by the government or by other agencies over and above what is laid down by law or what is normally expected on the part of the contractual benefits for which worker may have bargained."
- According to N.M. Joshi, "Welfare work covers all the efforts which employers take for the benefit of their employees over and above the minimum standards of working conditions fixed by the Factories Act and over and above the provisions of the social legislation providing against accident, old age, unemployment and sickness".

On analysis of the above definitions, a simple definition of Labour Welfare can be framed as under:

Labour welfare implies the setting up of minimum desirable standards of the provision of facilities like health, food, clothing, housing, medical assistance, education, insurance, job security, recreation etc. Such facilities enable the worker and his family to lead a good working life, family life and social life. Welfare is of three types, size-statutory, voluntary and mutual. While statutary welfare is entirely governed by statutory laws, the voluntary and mutual welfare are optional and to a great extent depends upon the co-operation of the management.

Labour welfare thus embraces those activities which are undertaken statutorily or otherwise, inside the industrial premises or outside by any agency, government, employers which do not come under social security conditions, and which lead to improvement in health, efficiency and happiness of industrial workers and their families e.g. recreational, medical,

educational, washing, bathing, transport facilities canteens and creches, etc. The term labour welfare covers not only the workers but also their families.

9.6 CONCEPT OF INDUSTRIAL RELATIONS

The term 'Industrial Relations' comprises of two terms: 'Industry' and 'Relations'. "Industry" refers to "any productive activity in which an individual (or a group of individuals) is (are) engaged". By "relations" we mean "the relationships that exist within the industry between the employer and his workmen." Thus, the term industrial relations explain the relationship between employees and management which stems directly or indirectly from union-employer relationship.

The term industrial relations has a broad as well as narrow outlook. Originally, industrial relations were broadly defined to include the relationships and interactions between employers and employees. From this perspective, industrial relations cover all aspects of the employment relationship, including human resource management, employee relations, and union-management (or labour) relations. But now, its meaning has become more specific and restricted in some contexts. Accordingly, industrial relations pertains to the study and practice of collective bargaining, trade unionism, and labour-management relations, while human resource management is a separate, largely distinct field that deals with non-union employment relationships and the personnel practices and policies of employers. The distinction between industrial relations and labour management relations is such that the former presupposes the existence of government, besides management and employee as parties; while the later doesnot cover government as a party in the negotiation process.

Definition of Industrial Relations

In the words of Lester, "Industrial relations involve attempts at arriving at solutions between the conflicting objectives and values; between the profit motive and social gain; between discipline and freedom, between authority and industrial democracy; between bargaining and co-operation; and between conflicting interests of the individual, the group and the community".

"The concept of industrial relations has been extended to denote the relations of the state with employers, workers, and other organisations. The subject, therefore, includes individual relations and joint consultation between employers and workers at their places of work, collective relations between employers and trade unions; and the part played by the State in regulating these relations"- Encyclopaedia Britannica

Thus, IR can be defined as a coin having two faces: co- operation and conflict. This relationship undergoes change from thesis to antithesis and then to synthesis. Thus, the relationship starting with co-operation soon changes into conflict and after its resolution again changes into cooperation. This changing process becomes a continuous feature in industrial system and makes IR concept as dynamic and evolving one.

9.7 SCOPE, OBJECTIVES AND NEED OF IR

9.7.1 Scope of IR

Based on above definitions of IR, the scope of IR can easily been delineated as follows:

- Labour relations, i.e., relations between labour union and management.
- Employer-employee relations i.e. relations between management and employees.
- The role of various parties' viz., employers, employees, and state in maintaining industrial relations.
- The mechanism of handling conflicts between employers and employees, in case conflicts arise.

9.7.2 Objectives of IR

The primary objective of industrial relations is to maintain and develop good and healthy relations between employees and employers or operatives and management. Thus, the objectives of IR are designed to:

1. Establish and foster sound relationship between workers and management by safeguarding their interests.
2. Avoid industrial conflicts and strikes by developing mutuality among the interests of concerned parties.
3. Keep, as far as possible, strikes, lockouts, blockades and gheraos at bay by enhancing the economic status of workers.
4. Provide an opportunity to the workers to participate in management and decision making process.
5. Raise productivity in the organisation to curb the employee turnover and absenteeism.
6. Avoid unnecessary interference of the government, as far as possible and practicable, in the matters of relationship between workers and management.
7. Establish and nurse industrial democracy based on labour partnership in the sharing of profits and of managerial decisions.

9.7.3 Need of IR

Need of Industrial Relations has arisen to defend the interest of workers for adjusting the reasonable salary or wages. It also helps the workers to seek perfect working condition. Workers/employees are concerned with social security measures through this. Industrial Relations is also needed for achieving the democracy by allowing workers to take part in management.

According to The National Commission on Labour (NCL) industrial relations affect not merely the interests of the two participants- labour and management, but also the economic and social goals to which the State addresses itself. To regulate these relations in socially desirable channels is a function, which the State is in the best position to perform. Industrial relation encompasses all such factors that influence behaviour of people at work. A few such important factors are stated below:

- **Characters** - It aims to study the role of workers' unions and employers' federations, officials, shop stewards, industrial relations officers/ managers, mediator/conciliators / arbitrator, judges of labour court, tribunal etc.
- **Institution** - It includes government, employers, trade unions, union federations or associations, government bodies, labour courts, tribunals and other organizations which have direct or indirect impact on the industrial relations systems.
- **Methods** - Methods focus on collective bargaining, workers participation in the industrial relations schemes, disciplinary procedure, grievance redressal machinery, dispute settlements machinery, revisions of existing rules, regulations, policies, procedures, hearing of labour courts, tribunals etc.
- **Contents** - It includes matter pertaining to employment conditions like pay, hours of works, leave with wages, health, and safety disciplinary actions, lay-off, dismissals retirements etc., laws relating to such activities, regulations governing labour welfare, social security, industrial relations, issues concerning with workers' participation in management, collective bargaining, etc.

9.8 MEANING AND DEFINITION OF TRADE UNION

Trade unions are voluntary organizations or associations of workers formed to promote and protect their interests through collective actions. Thus, a labor union, or trade union, is an organization of workers who have joined together to achieve goals in areas such as wages and working conditions. The union negotiates contracts and conditions with employers, keeping employee satisfaction high and protecting workers from unsafe or unfair working conditions. Thus, the primary purpose of a trade union is collective bargaining.

These unions exist to deal with problems faced by laborers - these problems may be of any nature such as those concerning the pay, unfair work rules, timings and so on. All the workers working under one particular

employer is represented by the worker's union. All the communication that happens in between the employer and the workforce generally takes place through the union. The core purpose is to see that proper relations are being maintained between management and workers. Trade union may take disciplinary action against those workers who misbehaves, disturbs peace and harmony in the workplace.

Definition of Trade Unions: According to Webbs, a trade union is a continuous association of wage earners for the purpose of maintaining and improving the conditions of their working lives. Under the Trade Union Act of 1926, the term is defined as "any combination, whether temporary or permanent, formed primarily for the purpose of regulating the relations between workers and employers, or for imposing restrictive conditions on the condition of any trade or business and includes any federation of two or more unions".

Thus, from the above definitions, we find that a trade union has the following characteristics -

- Trade union is an association either of employees or of independent workers.
- It is a relatively permanent formation of workers. It is not a temporary or casual combination of workers.
- It is formed for securing certain economic (such as better wages, better working and living conditions), social (such as educational, recreational, medical, respect for individual) benefits to members.
- Collective strength offers a sort of insurance cover to members to fight against irrational, arbitrary and illegal actions of employers. Members can share their feelings, exchange notes and fight the employer quite effectively whenever he goes off the track.

9.9 CONCEPT OF WORKERS' PARTICIPATION IN MANAGEMENT

Workers participation is one of the debated issues now-a-days. Nowhere has the concept been defined clearly because it has come to be associated with varying practices in different countries. Inspite of the plurality

in meanings and variations in interpretation, there seems to be a consensus that *participation means sharing, in an appropriate manner, the decision making power with the lower ranks of the organisation.*

"The term participation implies the mental and emotional involvement of a person in a group situation which encourages him to contribute to group goals and share responsibility in them." - Kieth Davis

"It is a principle of democratic administration of industry: sharing the decision making power by rank and file of an industrial organisation through their representatives at all the appropriate levels of management in the entire range of managerial action." - Dr. Mehtras

On the basis of the above discussion, we can state that workers' participation in management ensures a system of communication and consultation either formal or informal by which employees of an organisation are kept informed about the affairs of the undertaking or through which they express their opinion and contribute to management decisions.

- Workers participation in management provides a chance to employees in organization's decision making process.
- The workers' participation may be at the shop level, departmental level or at the top level.
- The workers' participation in the management implies the willingness to share the responsibility and accept commitment by workers in executing decisions of management with consultation of workers.
- The workers participation is conducted through the mechanism of forums which provide for association of workers' representatives. Workers participation in management in India is yet to gain statutory recognition. As such it remains as a scheme of voluntary participation in India.

9.10 LEVELS AND FORMS OF WORKERS PARTICIPATION IN MANAGEMENT

Workers' participation may exist in all levels of management; however it may vary from organization to organization. Participation of workers in

management is more likely at lower level and less involvement at top level of management. Broadly speaking there are following levels of participation of workers in management.

1. *Information participation of workers:* It ensures that employees are able to receive information and express their views pertaining to the matters of general economic importance.
2. *Consultative participation of workers:* Under this kind of workers' participation in management, workers may act as a consultant in the matters of workers' safety, health and their welfare at workplace. Even so, ultimate decision lies in the hands of management, only employees' views are considered as advise.
3. *Associative participation of workers:* This kind of workers' participation in management is next level to consultative participation. Under associative participation of workers in management, morally the management accepts and implements the opinion of employees.
4. *Administrative participation of workers:* Under this kind of participation of workers in management, workers take part in discharge of managerial functions. Here employees take part in decisions. Employees have to select the best from those decisions for the purpose of implementation.
5. *Decisive participation of workers:* Decisive participation is the highest level of workers' participation in management, where employees and management together take decisions on the matters related to workers' welfare and production related issues.

Forms of Workers' Participation in Management: The forms of workers' participation in management vary from industry to industry and country to country depending upon the political system, pattern of management relations and subject or area of participation. The forms of workers' participation may be as follows:

1. Joint Consultation Model
2. Joint Decision Model
3. Self Management, or Auto Management Scheme
4. Workers' Representation on Board

1. *Joint Consultation Model:* In the joint consultation model the management consults with the workers before taking decisions. The workers represent their view through 'Joint consultative Committees'. This form is followed in United Kingdom, Sweden and Poland.
2. *Joint Decision Model:* In this form both the workers and management jointly decide and execute the decisions. This form of participation is followed in U.S.A. and Germany.
3. *Self-Management or Auto Management:* In this model, the entire control is in the hands of workers. The workers manage the organizations themselves. Yugoslavia is an example where this model is followed. In this case the state industrial units are run by the workers under a scheme called 'Self Management or Auto Management Scheme'.
4. *Workers' representation on board:* Under this method, the workers elect their representative and send them to the Board to participate in the decision making process.



CHECK YOUR PROGRESS

Q.3 : What are the different forms of Workers' Participation in Management?

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Q.4 : What is Self-Management or Auto Management model?

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9.11 VOLUNTARY RETIREMENT SCHEME (VRS) AND GOLDEN HANDSHAKE

Voluntary retirement is legally tenable and forms an integral part of public policy. This scheme is voluntary on both sides - the employer and the employee.

Meaning: A voluntary retirement scheme (VRS) package is offered to employees as an incentive to retire earlier than their normal retirement age. The VRS package usually contains generous retirement benefits for certain employees.

Purpose: The purpose of a VRS is to downsize the number of employees on payroll to adapt to a changing business environment. VRS plans cut costs and reduce layoffs.

Targeted Employees: Employees of middle age or those closer to actual retirement age and who have been employed with a company for at least 10 years are usually the first to be offered a VRS package.

Considerations: VRS may not be right for every individual because the retiree will have to live on a fixed income. Circumstances to consider are household dependent needs (e.g. college education expenses) and mortgage payments and other household expenses. If the VRS package isn't accepted, on the other hand, the employee might be laid off for which the modalities are different.

Cost, constraints and benefits of VRS

1. Cost and benefits to the company: A company introduces VRS with a view to reduce its surplus labour. If a company can reduce its workforce through retrenchment it has to pay compensation at the rate of 15 days' salary for every year of completed service. Companies employing more than 100 persons cannot retrench their employees without giving -
   - Prior notice,
   - Consultation with employees' union
   - Paying compensation under the law, and

- Obtaining prior permission of the appropriate government.

The extent of VRS amount is dependent on a number of factors like -

- Relative health of the enterprise
- The real cost in terms of intangible elements like moral and motivation

2. Cost and benefits to the employee: For high skilled performers, VRS is a golden parachute. For example, if they make a secure investment of the VRS amount, on a monthly basis, they would be able to earn 60% to 70% of their previous earnings and they are able to get another job where they can earn atleast 70% of the previous earnings; their total earnings will be 30% to 40% higher. But, the above is not always the case. Infact, in many cases it has been observed that a substantial number of the VRS amount is spent on fulfilling family obligations.

9.11.1 GOLDEN HANDSHAKE

A **golden** handshake is a clause in an employment contract that provides the employee/executive with a significant severance package in the case that the employee/executive loses his or her job through firing, restructuring, or even scheduled retirement. This can be in the form of cash, equity, and other benefits like stock options.

Typically, "golden handshakes" are offered only to high-ranking executives by major corporations

Example- A golden handshake is usually offered to a director, senior executive or consultant who is let go before his or her contract has expired. This situation is most common after the event of a merger, takeover or buyout.

For example, let's assume that John is the CFO of Company XYZ. The board of directors has decided to sell the company to Company ABC. Company ABC already has a CFO, and so John will be laid off after the merger occurs. Though John will lose his job

though no fault of his own, he is able to mitigate the financial consequences of abrupt unemployment because he had a golden handshake clause in his employment contract when he was hired. As a result, John received six months of pay, after he was laid off.

Why it matters: A golden handshake offers executives protection from merger-related layoffs and other situations.



9.12 LET US SUM UP

In this unit we have discussed the following aspects-

- A labour market is the place where workers and employers interact with each other for the procurement of services of the work force.
- Social justice, social security, welfare etc. are the principles of labour legislations.
- Labour legislations may be classified on different bases like, wages, Industrial Relations, Working Hours, Condition of Service and Employment, Social Security etc.
- Industrial Relations mainly covers the study and practice of collective bargaining, trade unionism, labour- management relations etc.
- Trade unions are voluntary organisations of workers which are formed to prompte and protect the interest of workers.
- The different forms of workers' participation in management are joint consultation model, joint decision model, self-management, workers' representation on Board.
- Voluntary retirement scheme is offered to employees as an incentive to retire earlier than their normal retirement age.
- A golden handshake is a clause in an employment contract that provides the executive with a significant severance package in the case that the executive loses his/ her job through firing, restructuring or scheduled retirement. It may be in the form of cash, equity etc.



9.13 FURTHER READING

1. Chernunilam, Francis; Business Environment- Text and Cases; Himalaya Publishing House;Mumbai, 2014
2. Business Environment; Saroj Upadhyay; Asian Books Private Ltd. New Delhi, 2nd Edition, 2005
3. Business Environment; Pippa Riley; Viva Books; New Delhi, Ist Edition, 2011



9.14 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: Change in demand and supply of labour influence the labour market. For example, let us assume that in a city, lot of civil construction activities are going on. The city will attract the labour contractors and the workers. If the supply of labour is more, labour cost will be less. If the number of workers is less than the required number, the cost of labour will be high and the industry will suffer for shortage of labour. The bargaining power of the labour contractors and the workers also will change in both the cases.

Ans to Q2: The principle of International Obligation requires enactment of labour laws with a view to giving effect to the provisions of resolutions, adopted by international organisations like ILO, UN and similar other bodies.

Ans to Q3: The different forms of workers' participation in management vary from industry to industry and country to country depending upon the political system, pattern of management relations and subject or area of participation. The forms of workers' participation in management may be as follows:

i. Joint Consultation Model

ii. Joint Decision Model

iii. Self-Management, or Auto Management Scheme

iv. Workers' Representation on Board

Ans to Q3: In the Self-Management or Auto Management model, the entire control is in the hands of workers. The workers manage the organizations. Yugoslavia is an example where this model is followed.



9.15 MODEL QUESTIONS

Q.1. Explain the principles of labour legislations.

Q.2. Explain the need of Industrial Relations

Q.3. Why do Trade Unions exist?

Q.4. Discuss the different forms and levels of workers' participation in management

Q.5. What is VRS?

Q.6. What is Golden handshake?

Q.7. Write short notes on -

a. Labour market

b. Labour welfare

c. Trade Union

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UNIT 10: NATURAL AND TECHNOLOGICAL ENVIRONMENT

UNIT STRUCTURE

10.1 Learning Objectives

10.2 Introduction

10.3 Natural Environment

10.4 Emerging Trends in Natural Environment

10.5 Technological Environment

10.6 Innovation

10.7 Technology and Competitive Advantage

10.8 IT and Business Environment.

10.9 Let Us Sum Up

10.10 Answers to check your progress

10.11 Further Reading

10.12 Model Questions

10.1 LEARNING OBJECTIVES

After going through this unit, you will be able to

- Understand the trends in respect of natural environment and green marketing
- Understand the trends in respect of technological environment
- Describe the role played by innovation and technology in gaining competitive advantage
- Understand the emerging trends in IT and business environment

10.2 INTRODUCTION

It is said that at the core of any social system is the natural environment and availability of technology. The human action in the society is greatly influenced by the environmental forces in technology and nature. In case of business environment, we need to study the emerging trends in

the natural and technological environment. In today's business, innovation and Information Technology (IT) plays a great role. We need to understand the emerging realities in these areas also. In this Unit, we shall discuss various aspects related with natural and technological environment.

10.3 NATURAL ENVIRONMENT

The Delhi Government took a bold initiative to convert all modes of public transport to Compressed Natural Gas (CNG) powered vehicles. It helped to reduce the pollution levels in the city drastically. Still, Delhi is a highly polluted city. The focus as on today is on reduced dependence on fossil fuels. We need to increase usage of alternative fuels. In Western Europe, there is a strong movement for adoption of 'green' almost in everything that they come across. The 'green' parties press hard for public action to reduce industrial pollution. Ecological deterioration that is degradation of the environment is a global concern. In USA, the watchdog groups like the Sierra Club and Friends of the Earth carry the ecological concerns into political and social action.

In India, the citizens and NGOs have been pressing the government and fighting continuously against the following environmental issues:

i. Indiscriminate mining
ii. Use of harmful pesticides
iii. Deforestation
iv. Introduction of genetically modified foods
v. Pollution of rivers and underground water

Because of the increasing concerns for environment, the business organizations are required to make investment in pollution control measures. In the Case Study Unit of this paper on Business Environment, some of the environmental issues are discussed in a few management cases. Environmental regulations have hit the business enterprises hard. Because of the regulations and an urge to contribute towards environmental protection; companies are making use of environmentally friendly fuels, low flow toilets for optimum use of water, organic foods, green buildings for

office etc. The business enterprises making investments for environmental protection can enjoy new business opportunities in the environment. Corporate environmentalism is emerging as a concept. It recognizes the need to integrate environmental issues into the strategic plans of the business organization.

The following facts can help us in understanding the importance of protecting the natural environment.

i. Nearly a quarter of the carbon dioxide that makes up about 80 per cent of all greenhouse gases comes from electric power plants.

ii. Transportation is second only to electricity generation as a contributor to global warming.

iii. Due to millions of rural cooking fires, parts of South Asia suffer from very poor air quality. A person cooking over an open wood or kerosene fire inhales the equivalent of two packs of cigarettes a day.

10.4 EMERGING TRENDS IN NATURAL ENVIRONMENT

The following are the emerging trends in the natural environment that the managers of the business organizations should be aware of.

i. Shortage of raw material, especially water

Take the example of oil, coal, platinum, zinc, silver etc. The mankind has been using these resources for ages. These resources are depleting. We do not have infinite resources. But, we have not been able to make use of tidal waves, solar power etc. These resources are available for use. When depletion approaches in case of non-renewable resources, it becomes quite costly to avail those resources. For example, crude oil exploration is very costly. Both onshore and off shore drilling requires substantial cost. Depletion of

ground water level has become a major concern for the agricultural and industrial sector as well. Organizations that can develop substitute materials have tremendous business opportunities in the environment.

ii. Increased cost of energy

Oil is a finite nonrenewable energy. Depletion of this source has been a major concern although the sector has witnessed more supply in the recent past. Historically, oil has created serious problems in the world economy. The dependence on oil needs to be reduced. There should be efforts by the business organizations to harness other alternative sources of energy like solar, nuclear and wind.

iii. Increased pollution levels

Pollution has been a global concern. Industrial activities damage the natural environment. The governments have adopted strong measures for pollution control. As a result markets for the pollution control equipment and machineries have developed. Markets for scrubbers, recycling centres etc. have expanded. Because of the potential damage in the natural environment, the business organizations have to explore alternative ways to produce and package goods.

iv. Changing role of governments

All the governments in the world are not equally sensitive to the issues of environmental degradation. The developed countries like USA, Germany, Japan, Singapore etc. are very sensitive to the environmental issues. Many poor countries are doing a little about pollution. These countries do not have the funds or the political will.



CHECK YOUR PROGRESS

Q.1 : List three issues of environments for which the NGOs are fighting.

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Q.2 : What are the environmental trends that the managers should be concerned with?

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10.5 TECHNOLOGICAL ENVIRONMENT

With the advent of internet and mobile phones, we can see that the way the consumers choose to communicate is changing drastically. When we watch the television, we can find the advertisements of the likes of Flipcarts, Paytm etc. The way the banks are making use of services like ATMs, kiosks, internet banking etc. the entire scenario has changed a lot in the last few decades. Since early 1990s, the business environment has changed drastically because of the advent of new age technology.

Because of technology, we can observe creative destructions. Televisions impacted newspapers. Internet has impacted both. The typewriters are not used now a day. The digital cameras have come. The hand held device like cell phones can serve the purpose of camera, music player and what not? When old industries do not show the required sensitivity to the changes in the technological changes in the environment, they will be thrown out from the market by the competitive players.

The managers should be aware of the technological changes taking place in the business environment. Some of the emerging trends are shown below.

10.5.1 Emerging Trends in Natural environment

i. **Accelerating pace of change:** More ideas for change and implementation of the same have been an emerging phenomenon. Apple sold 300 million iPods in nine months. People want more and more changes and the business organizations comply by offering new products at a fast rate.

ii. **Unlimited opportunities for innovation:** Because of increased expectations of people and customers, the business organizations are finding huge opportunities for innovation.

iii. **Varying budgets for research and development:** The companies are spending more on research and development. The amount spent by companies on basic and applied research is changing. The effort should not be on copying and making minor improvements in competitors' products. Major breakthroughs require major investment. Companies like Tatas and Mahindra and Mahindra have focused on affordable technology with frugal innovations (innovations which reduce complexity and cost).

iv. **Increased regulation of technological change:** Unsafe products may create health hazards. The governments keep watches on unsafe products and processes. In the Unit on case studies in this paper, you will read that companies are penalized for not making investment in appropriate technology. Safety regulations have increased for food, automobiles, clothing, electrical appliances, construction etc.

v. **Impact on Globalization:** Globalization has been greatly influenced by technology. Advent of containerization and global sourcing has facilitated production and transportation in bulk. That helps in saving cost on transportation and improving productivity. Because of the shrinkage in time and faster/easier modes of transportation and communication, technological revolution, disappearing borders for liberalization and barrier free trade, the world is evolving into a global village.

10.6 INNOVATION

Innovation is defined simply as a "new idea, device, or method". However, innovation is also viewed as the application of better solutions

that meet new requirements, unmet needs, or existing needs. This may be accomplished through

i. Introduction of a new product
ii. Use of a new method of production
iii. Opening of a new market
iv. Availing new source of raw material supply
v. Finding substitute products
vi. Reorientation of the industry

All these need to be made available to markets, governments and society. The term "innovation" can be defined as something original and more effective and, as a consequence, new, that "breaks into" the market or society. It is related to, but not the same as invention.

Innovations are divided into two broad categories:

i. Evolutionary innovations (continuous or dynamic evolutionary innovation) that are brought about by many incremental advances in technology and processes. Cars, motor cycles, bicycles etc. are always made new with the addition of new features and applications.
ii. Revolutionary innovations (also called discontinuous innovations) which are often disruptive and new. Launching the apps for car rental has changed the entire business of availing the services of rented cars.

Disruptive or revolutionary innovations out throw the existing products from the market. Evolutionary innovations can be made in the existing products.

We can observe the power of innovations all around. Major new innovations and technologies stimulate growth and vibrancy in the economy. We can well observe the changes for the changes in the IT and telecom sector. Cell phones, video games, internet is reducing the attention paid to the traditional media. The new age generation has been highly savvy on technology. People watch a movie in their cell phones or listen

to music in their cell phones. The industries have converged. The camera industry, music industry, film exhibition industry - all have converged in the cell phone.

In a super market we can see a number of new products in new packages. Examples are frozen waffles, energy drinks, small gadgets etc. Minor innovations are present. An economy can be influenced by innovations. China has shown a number of examples. The Chinese products have proliferated a lot in global markets. We find lots of Chinese products in Indian markets. The scale of work and production processes is different there.

Joseph Schumpeter, a well-known economist, has given a lot of importance on innovation for economic development. The entrepreneur who is an innovator is the central figure in Schumpeterian analysis.

Innovations' long term consequences are difficult to visualize. Because of adoption of family control methods, the family size has decreased. The birth control devices are fruits of innovation. Because of small size of family, people now a day have more purchasing power. They can buy the luxury items, they can avail foreign vacations. All these can be somehow attributed to the innovations made in the area of birth control. Major breakthroughs require major investment. Companies like Tatas and Mahindra and Mahindra have focused on affordable technology with frugal innovations.

10.7 TECHNOLOGY AND COMPETITIVE ADVANTAGE

Michael Porter pointed out in his well-known work on Competitive Strategy that technological change is one of the principal drivers of competition. Because of technology, new industries are created. The structure of existing industries may change. The market leaders in many industries can enjoy the leadership advantages because of their superiority in the domain of technology. Innovation is the key weapon in achieving sustained competitive advantage. Michael Porter pointed out that technological change is not important for its own sake. It is important because it affects competitive advantage and structure of the industry.

Take the example of car rental industry. Uber, Ola, etc. are the different players in this industry. Because of the advantages of IT, these companies without owning cars have been able to provide the services. The structure of the car rental industry has changed. The technological change has benefitted the customers. The one company which will be investing more on technology is likely to enjoy sustained advantages in the market.

In view of the role of technology in driving competitiveness, many companies invest heavily on research and development. Ranbaxy, for example, invested a lot for transforming itself into a research based international company. Dr. Reddy's Laboratories, another pharmaceutical company, has also invested substantially on research and developing new formulations. The idea is to have competitive advantage.

In many cases, the developing countries have to obtain foreign technology at a very high price. The investment associated with technology transfer and the dividend payable to the foreign collaborator is high for high end technology. Royalties and technical fees are also high. In view of all these, the appropriateness of the foreign technology to the physical, economic and social conditions of the developing countries is an important aspect to be considered in case of technology transfer.

CHECK YOUR PROGRESS



Q.3 : What are the two categories of innovation?

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Q.4 : List three emerging trends in technological environment.

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10.8 IT AND BUSINESS ENVIRONMENT

The computer is considered as a machine that has changed the world. The changes in the area of information technology and its

convergence with other technologies like telecom etc. have been instrumental for the drastic changes in the business environment.

Information technology has been instrumental for changes in the business environment as shown below.

i. **Design:** We find new products and processes in almost all the sectors. The designs for these new products and processes are facilitated by computers. Computer Aided Design (CAD) and Computer Aided Manufacturing (CAM) have changed the way the things are designed and manufactured. In many industries we find automation in manufacturing processes eliminating the role of human element. In banking operations, Business Process Reengineering (BPR) and the software have revolutionized the internal processes of carrying out the business functions. BPR helps in redesigning the work flows in an organization and automation of non-value added tasks.

ii. **Relationship Management:** Customer Relationship Management (CRM) practices have changed a lot because of IT. On a click of the mouse, the customer relationship officer in an organization can get the entire information regarding the purchase pattern of a customer. The airlines offer frequent flier discount based on the usage behavior of air passengers. All these are facilitated by management of the data on customer profile and use of computer. Not only customers, IT has facilitated developing relationship with other stakeholders too like the suppliers. NGOs can campaign around the world online with their messages across borders in seconds. Through e mail and media networks, people are giving support to causes across borders. The companies are making their presence felt online with the use of social media like Facebook etc. Viral marketing, i.e. spread of word of mouth messages online; has impacted a lot about doing business.

iii. **Just in Time Production:** IT has helped a lot in streamlining the entire production processes and thereby helps in ensuring just in

time production. With the help of electronic data exchange and effective management of relationship with the suppliers, efficiency in production processes can be achieved. The inventory holding cost can be reduced.

iv. **Industry Structure:** As stated earlier because of IT there has been an emerging trend of industry convergence. The music download, the video download, use of camera in the cell phone etc. has changed the structure of the industries. Companies like HMV, Kodak etc. have faced the harsh realities of cut throat competition offered by the cell phone. Almost everyone has become a photographer and almost everyone has a wide access to varieties of songs and music because of the cell phones that they possess.

V. **Organizational Intelligence:** Because of intranet and other information sharing practices in the organizations, the employees are better placed for timely decisions. Information is shared faster. Organizations are making use of e-tendering, e-procurement etc. The internal processes are streamlined to a great extent because of IT. Through video conferencing and data exchanges supervision has become efficient because of IT.

vi. **Productivity and Flexibility:** IT has facilitated improving productivity in the organizations. It has facilitated flexibility too. Think about a paint dealer. You can choose any colour of your interest and the paint dealer will get that one processed in a machine with a computer. It is highly flexible. The paint dealer is not required to carry inventory of all the color which is otherwise almost impossible and not desirable too.

vii. **Technology Transfer:** Technological change is also affecting the nature of investment. Previously high technology production had been limited to technologically developed and rich countries with higher wages. Today, technology is more easily transferred to developing countries where sophisticated production facilities can be installed with workers at comparatively lesser wages.

In view of the above the major trends as regards use of IT in business can be stated as follows:

i. Technology as an integral part of work environment

ii. Technology as a part of corporate strategy.

iii. Technology as an instrument to transform an organization

iv. Technology as a facilitator of knowledge and employee development in an organization

v. Use of computer not only as a computational device, but as a device of communications as well



10.9 LET US SUM UP

In this unit we have discussed the following aspects-

- The emerging trends in natural environment like, shortage of raw-materials, increased pollution levels, increased cost of energy etc.
- The emerging trends in natural environment are accelerating pace of change, unlimited opportunities for innovation, impact of globalisation etc.
- Innovations are divided into two broad categories: Evolutionary innovations and Revolutionary innovations.
- Information Technology is instrumental for change in business environment in the form of design, relationship management, industry structure, technology transfer etc.



10.10 FURTHER READING

1. Cherunilam Francis. International Business- Text and Cases (Fifth Edition). PHI Learning Private Limited, New Delhi. (2010)

2. Kotler Philip, Keller Kevin Lane, Koshy Abraham and Jha Mithileshwar; Marketing Management;14th Edition; Pearson Education, New Delhi, 2013

10.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: The three issues of environment for which the NGOs are continuously fighting are as follows.

a) Indiscriminate mining

b) Use of harmful pesticides

c) Deforestation

Ans to Q2: The environmental trends that the managers should be concerned with are as follows:

i. Shortage of raw material, especially water

ii. Increased cost of energy

iii. Increased pollution levels

iv. Changing role of governments

Ans to Q3: The innovations are divided into two broad categories:

a) Evolutionary innovations (continuous or dynamic evolutionary innovation) that are brought about by many incremental advances in technology and processes.

b) Revolutionary innovations (also called discontinuous innovations) which are often disruptive and new.

Ans to Q4: Three emerging trends of technological environment are as follows:

i. Unlimited opportunities for innovation

ii. Increased regulations of technological change

iii. Accelerated pace of change



10.12 MODEL QUESTIONS

Q.1. Discuss the emerging trends in natural environment

Q.2. Discuss the emerging trends in technological environment

Q.3. Discuss how IT has been instrumental for the changes in the business environment

Q.4. Discuss the role of technology in attainment of competitive advantage by a business enterprise.

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UNIT 11: ECONOMIC DEVELOPMENT

UNIT STRUCTURE

11.1 Learning Objectives

11.2 Introduction

11.3 Industrial Development in India

11.4 Public sector in India

11.5 Private sector in India

11.6 Exports and imports of India

11.7 Let Us Sum Up

11.8 Answers to Check Your Progress

11.9 Further Reading

11.10 Model Questions

11.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- discuss the industrial development in India since Independence
- discuss the role of public sector in India
- discuss the role of private sector in India
- state the items related with exports and imports of India

11.2 INTRODUCTION

This unit is about the concept of economic development in the India. You will be benefited by the unit as the unit discusses about the salient features of industrial planning and development, the role of public and private sector organizations and the status related with export and imports of India.

11.3 INDUSTRIAL DEVELOPMENT IN INDIA

Since independence, India is trying to build up a sound industrial base. But, inspite of all its efforts, India is still not an industrially developed country. India possesses a huge reserve of natural resources but inspite of

that the country could not develop a sound industrial sector which could contribute a good portion to its national product. During the 200 years of British rule, no serious efforts were made by the Britishers to develop industries, especially basic and heavy industries. During the mid-19th century, tea, jute, textile and coal industries were mostly developed in India by the British rulers with the help of British industrialists.

As we discussed in Unit 4, in the post-independence era, i.e. on 6th April, 1948, the Government of India adopted the Industrial Policy Resolutions for accelerating the industrial development of the country. Industrial policy is a comprehensive package of policy measures which covers various issues connected with different industrial enterprises of the country. This policy is essential for devising various procedures, principles, rules and regulations for controlling such industrial enterprises of the country.

11.3.1 SALIENT FEATURES OF INDUSTRIAL PLANNING AND DEVELOPMENT IN INDIA

During the last seven decades of planning, industrial pattern in India had undergone a perceptible change. Thus, the major features of Industrial planning and development are as follows -

1. **Development of infrastructure:**

   Infrastructural development is extremely essential for attaining a sound industrial development. Thus, in the initial part of planning in the country, serious efforts were made for building basic infrastructural facilities like power, transport and communications along with the development of heavy engineering industries

2. **Development of Heavy and Capital Industries:**

   Since the Second Plan onwards, the government put much emphasis on the development of heavy machine building industries and capital goods industries in order to strengthen the industrial base of the country.

3. Rapid expansion of FMCG, consumer durables and service sector

Due to the initiation of the policy of liberalization by the Government during 1990s, the consumer durables industries and service sector enterprises in telecom, banking, and insurance etc. expanded at a faster rate. The rise in per capita income and purchasing power of citizens helped in the growth of sales of FMCGs (Fast moving consumer goods).

11.3.2 INDUSTRIAL DEVELOPMENT IN INDIA UNDER THE FIVE YEAR PLANS

A brief summary on the industrial planning and development during the plan period is given below:

First Five-Year Plan (1951-56)

The main thrust of the First Five-Year Plan was on agricultural development. However, the Plan emphasized on increasing capacity of the then existing industries rather than the establishment of new industries. Cotton, woollen and jute textiles, cement, paper, newsprint, power-looms, medicine, paints, sugar, vanaspati (vegetable oil), chemical and engineering goods, and transport equipments showed some progress.

Second Five-Year Plan (1956-61)

Great emphasis was laid on the establishment of heavy industries during the Second Five-Year Plan. The second industrial policy was announced in 1956. The main thrust of industrial development was on iron and steel, heavy engineering, ship building, lignite projects, and fertiliser industries. Moreover, there was emphasis on the expansion of existing steel plants. However, the targets could not be achieved because of the war with China in 1962 and the failure of monsoon over greater parts of the country.

Third Five-Year Plan (1961-66)

There was emphasis on the expansion of basic industries like iron

and steel, fossil-fuel, power, and machine building. Machine building, locomotive and railway coach making, ship-building, air-craft manufacturing, chemicals, drugs, and fertiliser industries also made steady progress.

Fourth Five-Year Plan (1969-74)

The period between 1966 and 1969 was the period of annual plans. The industrial period could not make much progress during the annual plans period. During the fourth Five-Year Plan there was much emphasis on the agro-based industries such as sugar, cotton, jute, vanaspati, metal-based, and chemical industries. It was during this plan when much progress was made in alloys, aluminium, automobile-tyres, electronic goods, machine tools, tractors, and special steel.

Fifth Five-Year Plan (1974-79)

The main stress in this plan was on rapid growth of steel plants, export-oriented articles, and goods of mass consumption. The Steel Authority of India (SAIL) was established. Moreover, drug manufacturing, oil refining, chemical fertilisers, and heavy engineering industries made steady progress.

Sixth Five-Year Plan (1980-85)

The main emphasis in the Sixth Five-Year Plan was on producing goods to exploit the domestic and international markets. Production targets were achieved in industries like commercial vehicles, drugs, T.V. receivers, automobiles, cement, coal, jute industry, non-ferrous metals, textiles, railway wagons, sugar industry, etc.

Seventh Five-Year Plan (1985-90)

The main thrust of the Seventh Five-Year Plan was on 'high tech' and electronic industries. Industrial dispersal, self employment, exploitation of local resources, and proper training were the preference areas of the plan.

Eighth Five-Year Plan (1992-97)

The period between 1990 and 1995 was the period of annual plan. There was a major change in the industrial policy of the Government of India which was initiated in 1991. The policy of liberalisation was adopted for the investment of foreign multi-nationals.

Ninth Five-Year Plan (1997-2002)

The main emphasis during this plan was on cement, coal, crude oil, consumer goods, electricity, infrastructures, refinery, and quality steel products

Tenth Five-Year Plan (2002-07)

During the Tenth Five Year Plan, the main emphasis was on modernization of technology, increased export, global competitiveness; and regional development.

Eleventh Five Year Plan (2007-12)

The 11th plan document aimed "Towards Faster and More Inclusive Growth" gave priority to: agriculture, irrigation, and water resources, education, health, infrastructure, and employment, along with programmes for SCs/STs, other backward classes, minorities, women and children.

Twelfth Plan (2012-17)

The Twelfth Five-Year Plan decided for the growth rate at 8.2%, down from 9 per cent envisaged earlier, in view of fragile global recovery. Areas of main thrust were- on infrastructure, health and education. Emphasis was given on the removal of regional imbalances and encouraging the growth of employment in small and tiny sectors. The status of the 12^{th} plan is in question due to the dissolution of the planning commission. The Government of India established a new policy of think tank viz-Niti Aoyog to replace the planning commission in 2015.



CHECK YOUR PROGRESS

Q.1 : State the measures taken for industrial development during the Second Five Year Plan.

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11.3.3 PROBLEMS OF INDUSTRIAL DEVELOPMENT IN INDIA

Foregoing analysis shows that India has made sufficient achievement in industrial development during the last six decades or so and has emerged as the tenth largest industrialized country of the world. But considering the size of the country this development is far from satisfactory. Thus, the major problems in Indian industrial sector are as follows:

1. **Unbalanced Industrial Structure**

   Despite all efforts India has not been able to attain self sufficiency in respect of industrial material. India is still dependent on foreign imports for transport equipments, machineries (electrical and non-electrical), iron and steel, paper, chemicals and fertilisers, plastic material etc.

2. **Regional Concentration**

   In India most of the industries are located in few selected areas leaving out vast expanse of the country devoid of industrial establishments. While the states like Maharashtra, Gujarat, Tamil Nadu etc are well ahead in industrial development others like Meghalaya, Manipur, Jammu and Kashmir, Tripura, Orissa, Assam etc are far behind. This has not only created regional imbalance and regional disparity but has encouraged fissiparous tendency including unrest, violence and terrorism.

4. Loss in Public Sector Industries

Most of these public sector enterprises are running in loss. To avoid this burden on exchequer the government is promoting privatisation and disinvestment of shares of public sector undertakings.

5. Industrial Sickness

Widespread sickness has, indeed, become a major problem of industrial development. We have already discussed about industrial sickness in Unit 6.

6. Lack of Infrastructure

Energy crisis has a great bearing on the industrial development and production. It leads to power cut which hampers the industrial production. Rail transport is overburdened while road transport is plagued with many problems.

8. Lack of Capital

The situation becomes acute when fresh loans are taken to pay the installments of the old loans. Due to liberalisation, the foreign exchange reserve position has improved in recent years. Still, access to capital is a problem

9. Shortage of Industrial Raw Material

Indian Agriculture, the major source of industrial raw material, is still dependent on the monsoon.

10. Higher Cost of Production and Low Quality of Goods

Indian industries mostly survive on home demands. Most of the work is done by hand on old and obsolete machines. This increases the cost of production and brings down the quality of products produced. Our industrial products are not able to make wide market abroad.

All these factors as mentioned above have constrained the faster pace of industrial growth.



CHECK YOUR PROGRESS

Q.2 : List five problems of industrial development in India.

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11.4 PUBLIC SECTOR IN INDIA

After Independence, the area of activities of the public sector expanded at a very rapid speed. To assure the private sector that its activities will not be unduly curbed, two industrial policy resolutions were issued in 1948 and 1956 respectively. These policy resolutions divided the industries into different categories. Some fields were left, entirely for. the public sector, some fields were divided between the public and the private sector and some others were left totally to the private sector. A cursory glance at the division of fields of industrial activity into the public and private sectors clearly brings out, that while heavy and basic industries were kept for the public sector, the entire field of consumer goods industries (having high and early returns) was left to the private sector. Outside the industrial field, while most of the banks, financial corporations, railways, air transport, etc., are in the public sector, the entire agricultural sector (which is the largest sector of the economy) has been left for the private sector.

The post liberalization era which commenced from 1991 saw the Government introducing the concept of Maharatna, Navratna and Miniratna to accord greater financial and managerial autonomy to the public sector enterprises with the aim of incurring higher capital expenditure apart from forming Joint Ventures within the country as well as outside.

11.4.1 ROLE OF PUBLIC SECTOR IN THE INDIAN ECONOMY

We may enumerate below the various arguments put forth in support of the public sector in India.

1. ***Maximizing the rate of economic growth:***

   It was the public sector alone which could build the economic overheads such as power, transport, etc. Since then the ideological objective of capturing the "commanding heights" by the public-sector bas been duly fulfilled, it succeeded in creating the necessary infrastructural base for sustained industrial growth. It has tremendously boosted the technological capabilities.

2. ***Development of capital-intensive sector:***

   India successfully implemented various schemes of multi-purpose river projects,, hydroelectric projects, transport and communication, atomic power,, steel, etc. The public sector has played a strong role in this regard.

3. ***Development of agriculture:***

   The public sector has an important role in the field of agriculture as well. The public sector assists in the manufacture of fertilizers, pesticides, insecticides and mechanical implements used in agriculture.

4. ***Balanced regional development:***

   Through the extension of public sector enterprises the Government desired to remove regional imbalances. Normally the private sector cannot be induced to start industries in the backward areas. The policy of dispersal of Industries aims at removing regional disparities.

5. ***Development of ancillary industries:***

   States like Punjab have made a vast progress because of the development of small and ancillary units. This realization made the public sector take a close interest in the development of small and ancillary units.

6. ***Increasing employment opportunities:***

   The growth of the public sector has led to the expression of gainful employment opportunities.

7. ***Model employer :***

   The public sector has been the pacesetter in the field of labour welfare and social security.

8. ***Preventing concentration of economic power :***

   The public sector has created a countervailing force against the growth of larger industrial houses in the private sector.

9. ***Export promotion:***

   The public sector has-built up a reputation abroad in selling plants, heavy equipment's, machine-tools and other industrial products.

10. ***Import substitution:***

    Today many commodities starting from basic drugs to highly advanced equipments are manufactured in the public sector, which previously used to be imported from abroad.

11.4.2 PROBLEMS OF PUBLIC SECTOR ENTERPRISES

Of the various factors responsible for low profits and low performance in the public sector despite an important role in the industrial development of India, the following are particularly important:

i. **Poor project planning:** Investment decisions in many public enterprises are not based upon proper evaluation of demand and supply, cost-benefit analysis and technical feasibility.

ii. **High establishment costs:** Public enterprises incur heavy expenditure on social infrastructure such as schools, hospitals, etc. Location in backward regions and the desire to make the undertaking a model employer lead to huge capital outlay on housing and other amenities for labour. High establishment costs, overhead costs and other expenses reduce the profitability of public enterprises.

iii. **Overstaffing and remuneration not linked with productivity:** Manpower planning is not effective due to which several enterprises have excess manpower. Manpower is not effectively used but compensations have to be paid despite low productivity.

iv. **Under-utilisation of capacity:** One serious problem of the public sector has been low utilisation of installed capacity. In the absence of definite targets of production, effective production planning and control, proper assessment of future needs, adequate supply of power and industrial peace, many undertakings have failed to make full use of their fixed assets.

v. **Lack of a proper price policy:** Pricing decisions are not always based on rational analysis. There is lack of cost-consciousness, quality consciousness, and effective control on waste and efficiency.

vi. **Unsatisfactory industrial relations:** In several State enterprises relations between management and labour are far from cordial.

vii. **Lack of coordination:** Various state enterprises are dependent on one another as the output of one enterprise is the input of another. Despite such interdependence; effective coordination between different undertakings in the areas of personnel, finance, materials management and research has not been achieved.

viii. **Political interference:** There is excessive influence and interference by political leaders and civil servants in the functioning of public enterprises. Parliamentary control reduces the autonomy of these enterprises.

ix. **Undesirable Bureaucratic Interference:** While launching the public sector as part of national economic planning, Nehru had emphasized the need for evolving a system that would ensure adequate checks as well as enough freedom for an enterprise to function quickly and efficiently. But gradually all public enterprises have come to be treated as if they were all departmental undertakings.



CHECK YOUR PROGRESS

Q.3 : State three problems of public sector enterprises in India.

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11.5 PRIVATE SECTOR IN INDIA

The Indian economy today boasts of a strong annual growth rate, deep capital markets and liberalised foreign direct investment (FDI) regime. The economy of India has continuously recorded high growth rates and has become an attractive destination for investments. The liberalization and globalization of the economy has led to free inflow of foreign direct investment (FDI) along with modern cutting edge technology, which increased the importance of private sector in Indian economy considerably. Private sector in the past few years has witnessed significant increase in terms of investment and its share in Gross Domestic Product. The importance of private sector in India is discussed sector wise as follows.

i. IT sector

The importance of private sector in Indian economy can be witnessed from the tremendous growth of BPO (Business Process Outsourcing) in India, Indian software companies, Indian private banks and financial service companies. The manufacturing industry of India is flooded with private Indian companies and in fact they dominate the said industry. Manufacturing companies covering sectors like automobile, chemicals, textiles, agri-foods, computer hardware, telecommunication equipment, and petrochemical products were the main driver of growth. The Indian BPO sector is more concentrated with rendering services to overseas clients. The KPO (Knowledge process Outsourcing) sector is engaged in delivering knowledge based high-end services to clients.

ii. Agriculture

In India agriculture and other allied activities like animal husbandry, dairying, poultry etc. are playing a dominant role as it contributes

nearly 30 per cent of GDP and it provided employment to nearly 67 per cent of the total working population of the country. Such a big sector is completely owned and managed by the private sector.

iii. **Trading:**

Both the wholesale and retail trade in India are in the hands of private sector. But in case of scarcity of any essential commodities, the private businessmen have their natural tendency in resorting to hoarding and black marketing of such commodities leading to exploitation of the consumers. The Government has been procuring food grains through its premier organisation Food Corporation of India (FCI) and has introduced a huge network of the public distribution system (PDS) to participate in the trading of essential commodities for the interest of the consumer.

iv. **Infrastructure:**

Private sector is also providing an active support to the infrastructural sector of the country. But after the introduction of New Industrial Policy, 1991, the Government has opened some areas like power generation, air transport etc. for the participation of the private sector. Accordingly, in the post- 1991 period, the private sector has been actively participating in those new areas like power generation, air transport, building highways and bridges on Build, Operate and Transfer (BOT) basis etc. Moreover it provides the supporting services to the public sector.

v. **Services Sector:**

The professional services, repairing services, domestic services, entertainment services etc. are solely rendered by the private sector throughout the country. Private players are playing a very important role in sectors like banking, insurance, telecom, civil aviation etc.

vi. **Small Scale and Cottage Industry:**

In India, small scale and cottage industries are playing an important role in the industrial development of the country. The small scale and cottage industry is owned and managed by the private sector. As these industries are mostly labour-intensive in nature, thus they can utilize the local employment opportunities suitably. We have discussed about the SSI sector in Unit 5.

11.5.1 LIMITATIONS OF PRIVATE SECTOR IN INDIA

The following are regarded as the major limitations of private sector in India.

(i) Too Much Emphasis on Low-Priority Industries:

During the last four decades the private sector has invested most of its capital on the development and expansion of non-essential consumer goods like cigarettes, alcoholic beverages etc.. having low priority on less profitable areas.

But the entire blame of this undesirable trend cannot be solely shifted to the private sector alone.as Government has reserved most of the priority areas for the public sector.

(ii) Concentration of Black Money:

Growing economic concentration along with growing tendency on the part of the individual to avoid taxes has led to a huge concentration of black money in the hands of private sector. Such accumulation of black money and Government's failure to arrest such tendency has resulted in a huge drainage of real resources into undesirable channels, leading to considerable wastage, economic scam, political tampering etc.

(iv) Industrial Disputes:

Industrial disputes in the private sector of the country is mostly resulted from the issues like wages and allowances, bonus, working hours, leave privileges, victimization of workers, retrenchment, recognition of unions etc. Moreover, the incidence of industrial disputes is much higher in the private sector as compared to that of public sector of the country.

(v) Industrial Sickness:

Another important limitation of the private sector in India is the problem of growing industrial sickness in different lines of industrial and business activities forinefficient and corrupt management, lack of proper marketing strategy, poor labour relations and faulty government policy.

The fundamental limitation of the private sector is that it has always been assigned with a secondary role to play in the field of economic development of the country by the Government. Naturally it could not find any chance to show its worth in basic, heavy and capital goods industries and also in infrastructural sector. With the gradual opening of the economy through economic liberalisation, the private sector has now been assigned with a greater role to play in that priority sector during the post-1991 period, which was earlier reserved solely for the public sector.

11.6 EXPORTS AND IMPORTS IN INDIA

An export is a function of international trade whereby goods produced in one country are shipped to another country for future sale or trade. The sale of such goods adds to the producing nation's gross output. The higher the value of exports compared to the value of imports, the more positive that country's balance of trade becomes.

An Import is a good or service brought into one country from another. Along with exports, imports form the backbone of international trade. The higher the value of imports entering a country, compared to the value of exports, the more negative that country's balance of trade becomes.

Following are the 10 commodities exported most from India -

- Automobile and petroleum products
- Precious stones
- Machinery
- Bio-chemicals
- Pharmaceutical
- Cereals
- Iron and steel
- Textile
- Electronics

The major imports items of India are Crude Petroleum, Electronics, Gold, Pearl, Metal etc



11.7 LET US SUM UP

- India adopted the Industrial Policy Resolutions for accelerating the industrial development of the country.
- Public and Private sectors are playing important roles in the Indian economy.
- Exports and Imports are an integral part of India's foreign trade policy.



11.8 FURTHER READING

a) Economic Environment of Business: Misra and Puri, Himalaya Publishing House, Mumbai

b) Business Environment- Text and Cases; Francis Cherunilam; Himalaya Publishing House; Mumbai, 2014

c) 2. Business Environment; Saroj Upadhyay; Asian Books Private Ltd. New Delhi, .2nd Edition, 2005



11.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: Great emphasis was laid on the establishment of heavy industries during the Second Five-Year Plan. The second industrial policy was announced in 1956. The main thrust of industrial development was on iron and steel, heavy engineering, ship building, lignite projects, and fertiliser industries. Moreover, there was emphasis on the expansion of existing steel plants. However, the targets could not be achieved because of the war with China in 1962 and the failure of monsoon over greater parts of the country.

Ans to Q2: The problems can be listed as follows:

i. High cost of production
ii. Lack of capital
iii. Lack of infrastructure
iv. Shortage of industrial raw material
v. Lack of quality

Ans to Q3: Three problems of public sector enterprises are as follows:

i. Underutilization of capacity
ii. Undesirable political interference
iii. overstaffing



11.10 MODEL QUESTIONS

Q.1. Explain the role of industries in economic development of India.

Q.2. Discuss the problems of industrial development in India.

Q.3. Explain the role of public sector in Indian economy.

Q.4. What are the problems faced by the public sector in India?

Q.5. Discuss the importance of private sector in India.

Q.6. What type of problems the private sector is facing in India?

Q.7. Write a short note on the current export-import scenario of India.

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UNIT 12: ECONOMIC PLANNING

UNIT STRUCTURE

12.1 Learning Objectives

12.2 Introduction

12.3 Definition of Economic Planning

12.4 Features of Economic Planning

12.5 Stages of Economic Planning

12.6 Economic Planning in India

12.7 Objectives of Planning in India

12.8 Planning Commission and The National Development Council

12.9 Summary of Five Year Plans in India

12.10 The Twelfth Five Year Plan

12.11 NITI Aayog

12.12 Economic Survey

12.13 Union Budget

12.14 Let Us Sum Up

12.15 Answers to Check Your Progress

12.16 Further Reading

12.17 Model Questions

12.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- understand the meaning of Planning
- outline the salient features of Economic Planning
- learn the Stages of Economic Planning
- describe the objectives of Planning in India
- discuss the role of Planning Commission and The National Development Council
- know about the replacement of Planning Commission in India by NITI Aayog
- Know about the Economic Survey and Union Budget

12.2 INTRODUCTION

There is a saying that plans are nothing, planning is everything. Planning requires preparation of meticulous details for realization of goals. Economic planning consists of totality of arrangement decided upon so as to carry out projects related with accomplishment of economic goals. Plan is definable by two elements-

(a) An end or a goal, which one proposes to achieve

(b) The means or methods, through which the end may be achieved

There can be plans for agricultural production, industrial development, distribution, investment etc. which can be considered as a partial plan; but in full sense, the term economic plan is a plan concerned with whole economic life or the entire activities of an economic unit. Thus economic plan includes all the sectors of an economy. In this unit, we shall discuss various aspects related with economic planning in India. We shall also discuss the role of Five Year Plans, Planning Commission, NITI Aayog in economic planning in India.

12.3 DEFINITION OF ECONOMIC PLANNING

It is quite difficult to give a precise definition of economic planning. Various definitions have been put forward by different economists and writers.

1. According to Prof. H.D. Dickinson, "Economic planning is the making of major economic decisions; what and how much to be produced and to whom it is to be allocated by the conscious decision of a determinate authority, on the basis of a comprehensive survey of the economic system as a whole".

2. In the words of Mrs. Wotton, "Economic Planning is a system in which the market mechanism is deliberately manipulated with the object of producing a pattern".

   From the above we can say that economic planning requites adoption of measures on production, distribution, investment etc. in various sectors of an economy so that economic development takes place.

12.4 FEATURES OF ECONOMIC PLANNING

Economic planning is quite essential as it provides the road map towards accomplishment of economic goals. It takes into account the basic premises and based on that works out the modalities for all round economic development. Following are the features of economic planning.

i. A planned economy requires a co-ordinated picture of the entire economy. In India, the Economic Surveys, National Sample Surveys etc. provides the basic inputs required for formulation of economic plans and budgets.

ii. It is more egalitarian as it protects the interests of the weaker sections of the society. Separate plans are made towards development of drought prone areas, backward areas, areas inhabited by SC/ST population etc.

iii. It is one which safeguards the future interest of the economy. In the absence of economic planning, the country or the state will be quite vulnerable to the future changes in the economic environment.

iv. It is more rational as it eliminates wastes and emphasizes on the essential elements of the economy.

v. It works for optimum utilization of resources and efficient working of the economic system.

vi. It is time bound. In our country we had the five year planning regime. We have the system of yearly budgets.

12.5 STAGES OF ECONOMIC PLANNING

Like other plans, economic planning also is undertaken in a methodical manner as follows.

i. **Formulation:** The first stage in planning is the formulation of the general objectives of the plan and their definition in specific quantitative terms. The task of the formulation of the general objectives of the economic plan in India was generally performed by the Planning Commission alone. It was the function of the

Commission to formulate a plan for the most effective and balanced utilization of the country's resources. NITI Aayog has now replaced the Planning Commission.

ii. **Adoption:** The adoption of the plan is the function of either the Parliament or the Government. As soon as the Plan is adopted by the Parliament it acquires the force of law and becomes the statutory obligation of the government to execute.

iii. **Execution:** The execution or implementation of the Plan is the responsibility of the central and state governments in their respective spheres. The various Government departments and agencies are entrusted with the task of executing the Plan. Implementing a plan is more difficult than making it. Making a plan is an exercise of imagination, while implementation is a struggle with reality.

iv. **Evaluation:** One of the functions of the Planning Commission was to appraise from time to time the progress achieved in the execution of each stage of a plan and recommend the adjustment of policy and measures that such appraisal might be necessary. Planning cannot be considered good unless it takes into account the course of the fulfillment of the plan. Planning is no more filing up of tables and figures unrelated to the course of fulfillment of the plan. The supervision of the plan needs an independent body of experts unconnected with plan formulation or plan execution. This body of experts should evaluate plan fulfillment in a strictly impartial manner. It should bring to the notice of the government the failures and shortcomings which it notices in the course of its evaluation.



CHECK YOUR PROGRESS

Q.1 : State two features of Economic Planning.

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12.6 ECONOMIC PLANNING IN INDIA

In India the first systematic attempt of economic planning was made in 1934 when M. Visvesyaryya published his book "Planned Economy for India". But, the real beginning of Planning was made on March 1950 when the Indian Planning Commission was established. India launched its First FYP in 1951, immediately after independence under socialist influence of first Prime Minister Jawaharlal Nehru.

Five-Year Plans (FYPs) were centralized and integrated national economic programs. The model of five-year planning was started in Soviet Union in the late 1920s. Most communist states and several capitalist countries subsequently adopted them. China and India both continued to use FYPs, although China renamed its Eleventh FYP, from 2006 to 2010, a guideline (guihua), rather than a plan (jihua), to signify the central government's more hands-off approach to development.

The First Five-Year Plan was one of the most important FYPs because it had a great role in the launching of Indian development after the Independence. It strongly supported agriculture production and it also launched the industrialization of the country. The Second Plan, focused on heavy industries. The first two FYPs set the premises for mixed economy and welfare state. It tried to establish a blending of both public sector enterprises and private sector. At the same time, the FYPs tried to build India as a welfare state.

12.7 OBJECTIVES OF PLANNING IN INDIA

In a developing country like India, economic planning is playing a very important role towards its economic development. The fundamental objective of planning of our country is to accelerate the pace of economic growth and to provide justice to the general masses. "Growth with Social Justice" can be considered as the main guiding objective of economic planning in India.

In view of the above, the major objectives of economic planning in India are summarized as follows:

1. Attainment of higher rate of economic growth for the country
2. Reduction of economic inequalities in different regions of the country
3. Creation of employment opportunities
4. Economic self-reliance by having own production and lesser dependence on other countries. The balance regarding import and export is an important aspect.
5. Modernization of various sectors like agriculture, industries, services etc. by upgrading facilities.
6. Redressing the imbalances in the economy across strata of population and regions.

12.8 PLANNING COMMISSION AND THE NATIONAL DEVELOPMENT COUNCIL

The Planning Commission was set up by a Resolution of the Government of India in March 1950 in pursuance of declared objectives of the Government to promote a rapid rise in the standard of living of the people by efficient exploitation of the resources of the country, increasing production and offering opportunities to all for employment in the service of the community. The Planning Commission was charged with the responsibility of making assessment of all resources of the country, augmenting deficient resources, formulating plans for the most effective and balanced utilization of resources and determining priorities. Jawaharlal Nehru was the first Chairman of the Planning Commission of India.

12.8.1 Organization

The Prime Minister was the Chairman of the Planning Commission, which worked under the overall guidance of the National Development Council. The Deputy Chairman and the full time Members of the Commission, as a composite body, provided advice and guidance to the subject divisions for the formulation of Five Year Plans, Annual Plans, State Plans, Monitoring Plan Programmes, Projects and Schemes.

The National Development Council (NDC) was working as the highest national forum for economic planning in India since August 1952. In NDC, representatives of both central and state governments, decided together to finally approve all important decisions relating to planning.

The 1950 resolution setting up the Planning Commission outlined its functions as to:

i. Make an assessment of the material, capital and human resources of the country, including technical personnel, and investigate the possibilities of augmenting these resources for the nation's development;
ii. Formulate a Plan for the most effective and balanced utilization of country's resources;
iii. On a determination of priorities, define the stages in which the Plan should be carried out and propose the allocation of resources for the due completion of each stage;
iv. Indicate the factors which are tending to retard economic development, and determine the conditions which, in view of the current social and political situation, should be established for the successful execution of the Plan;
v. Determine the nature of the machinery which will be necessary for securing the successful implementation of each stage of the Plan in all its aspects;
vi. Appraise from time to time the progress achieved in the execution of each stage of the Plan and recommend the adjustments of policy and measures that such appraisal may show to be necessary; and
vii. Make interim or ancillary recommendations for facilitating the discharge of the duties assigned to it.



CHECK YOUR PROGRESS

Q.2 : State two objectives of economic planning in India.

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12.9 SUMMARY OF THE FIVE YEAR PLANS OF INDIA

In Unit 11 of this Business Environment paper (Section 11.3.2), we discussed the aspects of Five Year Plans in respect of industrialization. In this section, we shall discuss in brief the overall perspectives of the Five Year Plans in a chronological manner.

First Plan (1951 ? 56): Community Development Program was launched in 1952. It emphasized on agriculture, price stability, power and transport. It was more than a success, because of good harvests in the last two years of the Plan.

Second Plan (1956 ? 61): This Plan was also called Mahalanobis Plan after its chief architect. Its objective was rapid industrialization. It advocated huge imports which led to shortage of funds leading to foreign loans. It shifted basic emphasis from agriculture to industry. During this plan, price level increased by 30%, against a decline of 13% during the First Plan.

Third Plan (1961 ? 66): At its conception time, it was felt that Indian economy had entered a take-off stage. Therefore, its aim was to make India a 'self-reliant' and 'self-generating' economy. Also, it was realized from the experience of first two plans that agriculture should be given the top priority to suffice the requirement of export and industry. This Plan faced serious challenges due to unforeseen misfortunes, viz. Chinese aggression (1962), Indo-Pak war (1965), severest drought in 100 years (1965 ? 66).

Three Annual Plans (1966 ? 69): There was a Plan holiday for 3years. Instead of Five Year Plans, Annual Plans were formulated. The prevailing crisis in agriculture and serious food shortage necessitated the emphasis on agriculture during the Annual Plans. During these plans a whole new agricultural strategy involving wide-spread distribution of High-Yielding Varieties of seeds, the extensive use of fertilizers, exploitation of irrigation potential and soil conservation was put into action to tide-over the crisis in agricultural production. During the Annual Plans, the economy basically absorbed the shocks given during the Third Plan, making way for a planned growth.

Fourth Plan (1969 ? 74): Main emphasis of this Plan was on agricultural growth rate so that a chain reaction could start. It fared well in the first two

years with record production but in last three years there were failure because of poor monsoon. The country had to tackle the influx of Bangladeshi refugees before and after 1971 Indo-Pak war.

Fifth Plan (1974 ? 79): The Fifth Plan proposed to achieve two main objectives viz, 'removal of poverty' (Garibi Hatao) and 'attainment of self reliance' through promotion of high rate of growth, better distribution of income and a very significant growth in the domestic rate of savings. The Plan was terminated in 1978 (instead of 1979) when there was a change in government.

Rolling Plan (1978 ? 80): There were two Sixth Plans. First one was by Janata Govt (for 1978 ? 83) which was in operation for only 2 years. Second was by the Congress Govt. when it returned to power in 1980.

Sixth Plan (1980 ? 85): Its objectives were: Increase in national income, modernization of technology, ensuring continuous decrease in poverty and unemployment, population control through family planning, etc.

Seventh Plan (1985 ? 90): The Seventh plan emphasized policies and programs which aimed at rapid growth in food-grains production, increased employment opportunities and productivity within the framework of basic tenants of planning. It was a success, the economy recorded 6% growth rate against the targeted 5%.

Eighth Plan (1992 ? 97): The eighth plan was postponed by two years because of political upheavals at the Centre and it was launched after a worsening Balance of Payment position and inflation during 1990 ? 91. The plan undertook various drastic policy measures to combat the bad economic situation and to undertake an annual average growth of 5.6%. Some of the main economic performances during eighth plan period were rapid economic growth, high growth of agriculture and allied sector, and manufacturing sector, growth in exports and imports, improvement in trade and current account deficit. This was a very important Plan as many centrally sponsored schemes were discontinued for change in economic policies. The country adopted the new economic policies in the areas of liberalization, privatization of public sector enterprises and globalization.

Ninth Plan (1997 ? 2002): It was developed in the context of four important dimensions: quality of life, generation of productive employment, regional balance and self-reliance.

Tenth Plan (2002 ? 2007): The main objectives of this plan were -

- To achieve the growth rate of GDP at the rate of 8%.
- Reduction of poverty ratio to 20% by 2007 and to 10% by 2012.
- Universal access to primary education by 2007.
- Increase in literacy rate to 72% within the plan period and to 80% by 2012.
- Reduction of Infant Mortality Rate (IMR) to 45 per 1000 live births by 2007 and to 28 by 2012.
- Increase in forest and tree cover to 25% by 2007 and 33% by 2012.
- All villages to have sustained access to potable drinking water by 2012
- Cleaning of all major polluted rivers by 2007 and other notified stretches by 2012

Eleventh Plan (2007-2012): The main objectives of this Plan were:

- Rapid and inclusive growth encompassing all sections of society
- Emphasis on social sector and delivery of service therein.
- Empowerment through education and skill development.
- Reduction of gender inequality.
- Environmental sustainability.

" To increase the growth rate in agriculture, industry and services to 4%, 10% and 9% respectively.

12.10 TWELFTH FIVE YEAR PLAN (2012-2017)

The Twelfth Five-Year Plan decided for the growth rate at 8.2%, down from 9 per cent envisaged earlier, in view of fragile global recovery. The Deputy Chairman of the Planning Commission Mr Montek Singh Ahluwalia had said that achieving an average growth rate of 9 percent in the next five years would not be possible. Thus, the final growth target had been set at 8% by the endorsement of plan at the National Development Council meeting held in New Delhi.

Highlights of 12th Five Year Plan (2012-17):

- Growth rate had been lowered to 8.2 percent from the 9.0 percent projected earlier in view adverse domestic and global situation.
- Areas of main thrust were- infrastructure, health and education
- The commission had accepted Finance Minister P. Chidambaram's suggestion that direct cash transfer of subsidies in food, fertilizers and petroleum be made by the end of the 12th Plan period
- Agriculture in the plan period grew at 3.3 percent, compared to 2.4 percent during the 10th plan period. The growth target for manufacturing sector had been pegged at 10 percent
- The 12th Plan sought to achieve 4 percent agriculture sector growth during the five-year period
- On poverty alleviation, the Plan sought to bring down the poverty ratio by 10 percent from around 30 per cent of the population.

12.11 NITI AAYOG REPLACING PLANNING COMMISSION

The role of the Planning Commission in the economic development of India was not always highly regarded. There was some criticism about the planning model adopted by the country. With the assumption of power by the new government led by Prime Minister Narendra Modi, the 65-year-old Planning Commission was replaced by a new organization. The new body was envisaged to give state governments a much larger say in crucial decisions. Thus, the Planning Commission had been replaced by the National Institution for Transforming India (NITI) Aayog.

This institution is expected to serve as a 'think tank' of the government - a directional and policy dynamo. Thus, instead of being in the controlling seat, it was envisaged to provide a direction. It is supposed to be an 'enabler' instead of a 'provider of first and last resort'. Through NITI Aayog, India bid farewell to a 'one size fits all' approach towards development. The body is expected to celebrate India's diversity and plurality.

In the Planning Commission, there was just one central figure that practically controlled every aspect of the commission: the Deputy Chairman. But, to do away with the central authority and to make the Aayog more useful in terms of policy, direction and implementation, the Deputy Chairman has been replaced by a CEO and a Vice Chairperson in NITI Aayog. Asian Development Bank's Former Chief Economist Sri Arvind Panagariya is the first Vice Chairperson.

In the Indian planning regime, it is normally held that there is too much control. This control is not going to go away immediately - after all it has been there for the past 65 years and immediately yanking it out may collapse the administrative infrastructure. However, it is expected that the excessive control will go away gradually towards transformation. In that case NITI Aayog could be the desirable change.

"NITI Aayog is a pro-people, pro-active and participative development agenda stressing on empowerment and equality is the guiding principle behind it." - the Prime Minister Sri Narendra Modi stated.

12.12 ECONOMIC SURVEY

The Finance Ministry of India presents the Economic Survey in the parliament every year, just before the Union Budget. It is the ministry's view on the annual economic development of the country. A flagship annual document of the Ministry of Finance, Government of India, Economic Survey reviews the developments in the Indian economy over the previous 12 months, summarizes the performance on major development programs, and highlights the policy initiatives of the government and the prospects of the economy in the short to medium term. This document is presented to both houses of Parliament during the Budget Session. The Economic Survey covers all aspects of the economy - macro as well as sectoral. For example, the 2017 document largely covers the state of the Indian economy in the aftermath of the government's demonetization move which sucked out 86% (in value) currency from the system overnight. GDP figures, the fiscal consolidation path, digital economy etc. were in focus. The document also took into account the impact and the scope of US President Donald Trump's

presidency and Britain's Brexit vote on the Indian economy and companies. The Economic Survey 2017 talked about the government's diktat of moving towards a cashless economy and suggested the policy for going digital. A charge on cash transactions beyond a certain extent, incentivising customers and merchants for cashless transactions were also suggested.

12.13 UNION BUDGET

The Union Budget of India, also referred to as the Annual financial statement in the Article 112 of the Constitution of India is the annual budget of the Republic of India. The budget, which is presented by means of the Finance bill and the Appropriation bill has to be passed by both the Houses before it can come into effect from April 1, the start of the financial year of our country. The first Union budget of independent India was presented on November 26, 1947.

In the Union Budget 2017, reference was made to demonetization of high denomination bank notes. This exercise is a part of Government's resolve to eliminate corruption, black money, counterfeit currency and terror funding. Like all reforms, this measure also is disruptive, as it seeks to change the retrograde status quo. Drop in economic activity, if any, on account of the currency squeeze during the demonetization period is expected to have only a transient impact on the economy. The Union Budget 2017 was proposed by the Finance Minister under 10 themes in terms of a broad agenda towards development.

(i) Farmers: for whom the government committed to double the income in 5 years;

(ii) Rural Population: providing employment and basic infrastructure;

(iii) Youth: energizing them through education, skills and jobs;

(iv) Poor and the Underprivileged: strengthening the systems of social security, health care and affordable housing;

(v) Infrastructure: for efficiency, productivity and quality of life;

(vi) Financial Sector: growth and stability through stronger institutions;

(vii) Digital Economy: for speed, accountability and transparency;

(viii) Public Service: effective governance and efficient service delivery through people's participation;

(ix) Prudent Fiscal Management: to ensure optimal deployment of resources and preserve fiscal stability; and

(x) Tax Administration: honoring the honest.

The Union Budget, thus tries to provide a road map of growth across sectors depending upon the priority attached by the government.



12.14 LET US SUM UP

- Economic Planning has been an integral part of the Indian economy since independence.
- The Planning Commission was the main authority implementing the five year plans of India. In the successive five year plans, the country tried to achieve all round growth in various sectors like agriculture, industry etc. There were priorities attached for achievement of economic goals. However it was felt that there were not enough participation by the stakeholders of economic planning. A need was felt to make the system of economic planning people friendly.
- With the new government at the centre, the Planning Commission has been replaced by the National Institution for Transforming India (NITI) Aayog, which according to our Prime Minter Narendra Modi, is a pro-people, pro-active & participative development agenda.
- We have also discussed the aspects related with preparation and presentation of Economic Survey and Union Budget of Government of India.



12.15 FURTHER READING

1. Business Environment- Text and Cases; Francis Cherunilam; Himalaya Publishing House; Mumbai, 2014

2. Business Environment; Pippa Riley; Viva Books; New Delhi, Ist Edition, 2011
3. Economic Environment of Business: Misra and Puri, Himalaya Publishing House
4. indiabudget.nic.in/budget.asp



12.16 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: Two features of economic planning are as follows.

a) A planned economy requires a co-ordinated picture of the entire economy. In India, the Economic Surveys, National Sample Surveys etc. provides the basic inputs required for formulation of economic plans and budgets.

b) It is one which safeguards the future interest of the economy. In the absence of economic planning, the country or the state will be quite vulnerable to the future changes in the economic environment.

Ans to Q2: Two objectives of economic planning in India are as follows:

a) Attainment of higher rate of economic growth for the country

b) Reduction of economic inequalities in different regions of the country



12.17 MODEL QUESTIONS

Q.1. What is economic planning?

Q.2. What are the objectives of Economic Planning in India?

Q.3. Explain the role of Planning Commission and the National Development Council in formulating the five year plans of India.

Q.4. Discuss the salient features of the Twelfth Five Year Plan of India.

Q.5. What is NITI Aayog?

Q.6. What is Economic Survey? Why is it required?

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UNIT 13: GLOBALIZATION OF BUSINESS

UNIT STRUCTURE

13.1 Learning Objectives

13.2 Introduction

13.3 Concept and evolution of GATT

13.4 Objectives of GATT

13.5 Importance of GATT

13.6 Different Rounds of GATT

13.7 Evolution, structure, objectives and functions of WTO

13.8 Relevance of Uruguay Round

13.9 GATT and WTO - a comparison

13.10 Evaluation of WTO

13.11 Meaning, characteristics and importance of international business

13.12 Let Us sum Up

13.13 Answers to Check Your Progress

13.14 Further Reading

13.15 Model Questions

13.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- discuss the concept and evolution of GATT.
- state the objectives of GATT.
- highlight the relevance and importance of GATT.
- understand the different rounds of GATT.
- describe the evolution, objectives, structure and functions of WTO.
- explain the relevance of Uruguay Round.
- Compare GATT and WTO
- describe about meaning, characteristics and importance of international business.

13.2 INTRODUCTION

General Agreement on Tariffs and Trade (GATT), the predecessor of World Trade Organization (WTO) came into existence in the year 1947 after the World War II. There was a desire to liberalize trade. The main aim of GATT was to establish a free multilateral trading system and liberalization of international trade, elimination of discrimination in international trade by reducing all sorts of trade barriers. The WTO was created in the year 1995, and it replaced GATT which was formed to help the world economies from the after effects of World War II. The global business environment is significantly influenced by the WTO principles and agreements. They also effect the domestic business environment of a country. For example, India has had to substantially liberalize imports, including almost complete removal of quantitative import restrictions. The present unit highlights the evolution, objectives and importance of GATT and WTO. It also focuses on the meaning, features and importance of international business.

13.3 CONCEPT AND EVOLUTION OF GATT

As we have discussed already, GATT stands for General Agreement on Tariffs and Trade. GATT came into existence in the year 1947 after the World War II. GATT had its origin in a conference in Geneva which was attended by 23 nations all across the world. GATT was formed to regulate the international trade in order to recover the world economies from the after effects of the war. GATT was signed into an international agreement on January 1, 1948 and it remained one of the focal features of international trade agreements until it was replaced by the creation of the World Trade Organization on January 1, 1995. The main aim of GATT was to establish a free multilateral trading system and liberalization of international trade. The discrimination in international trade and all sorts of trade barriers had to be reduced. In order to achieve the main aim of GATT, certain major principles had been adopted as stated below.

a) Non discrimination during the conduct of international trade: The principle of non-discrimination requires that no member country shall discriminate between the members of GATT in the conduct of international trade.

b) Prohibition of quantitative restrictions in international trade: GATT rules sought to prohibit quantitative restrictions and limit restrictions on trade to the less rigid tariffs.

c) Settlement of international trade disputes through consultations within GATTs framework.

d) Conduct of a series of multilateral negotiations of GATT rounds for tariff reductions

13.4 OBJECTIVES OF GATT

The Preamble to the GATT mentioned the following as its important objectives.

i. Raising standard of living
ii. Ensuring full employment, large and steadily growing volume of real income and effective demand
iii. Developing and making full use of the resources of the world.
iv. Increase of production and expansion of international trade

13.5 IMPORTANCE OF GATT

GATT played a major role in the smooth functioning of international trade among the member countries of the world. It devised many principles for reviving the war affected economies. The major role or importance of GATT are discussed below.

a) GATT established a set of principles which helped the member countries in the smooth running of international trade among them. Every member country was required to obey the guidelines as provided by the GATT.

b) For accelerating trade among the member countries GATT reduced the tariff rates which resulted into less trade barriers

among the member countries and led to liberalization of international trade among the member countries.

c) GATT reduced the discrimination in tariff and trade which helped to reduce other trade barriers. GATT directed its contracting parties that they should not use other barriers to protect their own industries; it requested the reduction of the non-tariff barriers and quantitative restriction to make sure that the benefit from the reduction of tariff is not erased by the non-tariff barriers.

d) GATT also worked for the benefit of the developing member countries in international trade. In order to achieve the objective of raising the standard of living of the people in under developed and developing economies and progressive development of the economies, GATT established some special measures for less-developed countries, such as providing tariff protection for specific industries, fixation of quotas for balance of payment etc.

e) GATT also played a major role in settlement of disputes in international trade. GATT provided a platform to the disputing parties and it acted as a mediator with a legal mechanism in solving disputes related to international trade by the member countries.



CHECK YOUR PROGRESS

Q.1 : What were the objectives of GATT?

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13.6 DIFFERENT ROUNDS OF GATT

GATT held a total of nine rounds and a brief description is given below.

1. **Geneva Round:** This round started in the year 1947 and the major focus was on tariff reduction. During this round 45000 tariff concessions were given affecting $10 billion of trade.
2. **Annecy Round:** It took place in the year 1949 and here also the major focus was on tariff reduction. 13 countries participated in this round.
3. **Torquay Round:** This round occurred in Torquay, England in the year 1950. Total participating countries were 38 and 8700 tariff concessions were made in this round.
4. **Geneva Round:** The fourth round of talks again took place in Geneva in the year 1955 and 26 countries took part in it.
5. **Dillon Round:** This round again took place in Geneva in the year 1960 and this round was named after Douglas Dillon who was U.S. Treasury Secretary and former Under Secretary of the State. In this round a total of 26 countries participated.
6. **Kennedy Round:** This round started in the year 1962 and ended in the year 1967. This round was named after U.S. President John F. Kennedy. In this round tariff worth $40 billion were reduced.
7. **Tokyo Round:** This round started in the year 1973 and was participated by 102 countries.
8. **Uruguay Round:** This round began in the year 1986 and was participated by 123 countries. This round led to the creation of WTO.
9. **Doha Round:** This round was held in November 2001 and was attended by ministers from 142 countries. This round attracted a lot of attention because of the conflict of interests of the developed and developing countries. The Doha Round adopted major declarations on some of the concerns of the developing countries.

13.7 EVOLUTION, STRUCTURE, OBJECTIVES AND FUNCTIONS OF WTO

Evolution of WTO:

The World Trade Organization was created in the year 1995, and it replaced GATT which was formed to help the world economies to recover from the after effects of World War II. WTO came into existence during the Uruguay Round of GATT in which 123 countries participated. The WTO is basically an intergovernmental organization which regulates international trade.

Structure of WTO:

The WTO has nearly 153 member countries and around 30 negotiating members. The WTO's top level decision-making body meets at least once in every two years. Below this is the General Council which normally consists of the ambassadors and heads of delegation in Geneva and they meet several times a year in the Geneva headquarters. The General Council also meets as the Trade Policy Review Body and the Disputes Settlement Body.

At the next level, the Goods Council, Services Council and Intellectual Property Council report to the General Council. Numerous specialized committees, working groups and working parties deal with the individual agreements and other areas such as, the environment, development, membership applications and regional trade agreements.

Objectives of WTO:

The major objectives of WTO are stated below:

a. To improve and raise the standard of living of people in the member countries.

b. To ensure full employment and broad increase in effective demand.

c. To increase the production and trade of goods among the member countries.

d. To increase the trade of services.

e. To ensure optimum utilization of world resources.

f. To give protection to the environment.

g. To accept the concept of sustainable development.

Functions of WTO:

The main functions of WTO are discussed below:

a. Ensuring that the rules and provisions related to trade policy review mechanism is properly implemented.

b. Providing a platform to member countries to decide and formulate future strategies related to trade and tariff.

c. Ensuring that proper facilities and provisions are made and provided for implementation, administration and operation of multilateral and bilateral agreements of the world trade.

d. Administering the rules and processes related to dispute settlement.

e. Ensuring the optimum use of world resources.

f. Assisting the international organizations such as, IMF (International Monetary Fund) and IBRD (International Bank for Reconstruction and Development) for establishing coherence in universal economic policy determination.

13.8 RELEVANCE OF URUGUAY ROUND

Uruguay Round

The Uruguay Round was the eighth round of the GATT which started in the year 1986 and ended in 1994 and 123 countries participated in it. It was one of the most memorable and historical round as it led to the formation of World Trade Organization. The round was launched in Punta del Este, Uruguay in September 1986, followed by negotiations in Geneva, Brussels, Washington, D.C., and Tokyo, with the 20 agreements finally being signed in Marrakesh-the Marrakesh Agreement-in April 1994.

Objectives:

The main objectives of the Uruguay Round are stated below:

a) To reduce agricultural subsidies

b) To lift restrictions on foreign investment, and

c) To begin the process of opening trade in services like banking and insurance.



CHECK YOUR PROGRESS

Q.2 : List three objectives of WTO.

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13.9 GATT AND WTO - A COMPARISON

a) WTO is more powerful than GATT. GATT was less powerful as the dispute settlement system was slow and less efficient. The rulings of GATT could easily be blocked. In case of WTO, dispute settlement mechanism is faster and more efficient. It is difficult to block the rulings.

b) GATT was ad hoc and provisional. WTO and its agreements are permanent.

c) GATT had contracting parties. WTO has members.

d) GATT system allowed existing domestic legislation to continue even if it violated a GATT agreement. WTO does not permit this.

13.10 EVALUATION OF WTO

WTO has come to play a very important role in the global trade. The formation of WTO and its principles, policies and agreements has influenced the functioning of national economies of respective countries. There have been serious criticisms against WTO, particularly in the developing countries.

WTO has both positive and negative impacts. There has been a growing importance and acceptability of WTO as is evinced by the increase in number of the member countries. When the GATT was signed in 1947, there were only 23 nations as parties. The membership of WTO was 128 in

1995. It has increased to 159 in June, 2014. A number of nations have been negotiating for a membership in WTO.

China was one of the original signatories of GATT. It quit the membership because of assumption of power by communist party. It got again admitted in January, 2002 after prolonged negotiations.

The WTO members now account for about 95% of the international trade indicating the potential of the WTO in bringing about the potential of WTO for development of international trade in a planned manner.

It has been criticized that negotiations and decision making in the WTO are dominated by the developed countries. The developing countries have been increasingly opening up their markets. It is criticized that the developed countries have been increasing the barriers to the developing countries. The developing countries are said to suffer because of unequal participation and lack of bargaining power.

India's gain from trade liberalization is less than some of the emerging economies. Even the South East Asian economies like China's gain are more. India's share in the global trade is very low (less than one per cent). At the same time, because of WTO only, India has been able to make its presence felt. With the growth in the economy, this is likely to be stronger.

13.11 MEANING, CHARACTERISTICS AND IMPORTANCE OF INTERNATIONAL BUSINESS

In simple words international business can be defined as the exchange or transaction of goods and services between various countries. These transactions include the transfer of goods, services, technology, managerial knowledge, and capital to other countries. International business involves export and import of goods and services. International business can also be termed as the global trade of goods and services.

13.11.1 Characteristics of International Business

International business consists of some characteristics which are listed below.

a) **Large scale operations:** In international business all the activities are conducted at a very large or huge scale. The production, distribution and marketing activities are carried on at a very large scale.

b) **Huge investment of money:** Since the operations of the international business are carried on at a very large scale, the money or investment involved is also huge or big.

c) **Stiff competition:** Many players such as individuals and companies are involved in international business. The competition to survive in the market is very keen and stiff. We have already discussed about the aspects of competition in international business between the developed and the developing countries in the WTO regime.

d) **Integration of world economies:** International business helps in integrating the economies of the world. This is because international business uses finance of one country, labour from the other and technology from some other country. It designs the product in one country, produces its parts in many different countries and assembles the product in another country. It sells the product in many countries, i.e. in the international market. This is the advent of globalization.

e) **Advantageous to participating countries:** Advantages in the form of capital formation, new technology, employment generation, industrial development etc are generated among the participants of the international business.

f) **International restrictions and regulations:** Doing international business is not easy. There are many inflow and outflow restrictions in this business. There are restrictions and regulations in the form of trade restrictions, foreign exchange regulations and tariff barriers in international business.

g) **Sensitive:** International business is very much sensitive. Change in economic policies, technology, political changes etc.

have a direct impact upon international business. As such international business is termed as very sensitive.



CHECK YOUR PROGRESS

Q.3 : Mention three characteristics of international business

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13.11.2 Importance of International Business

International business has many advantages and carries a huge importance to the participating countries.

a) **Helps in earning foreign exchange:** International business transfers goods and services from one country to another. This in turn helps in earning a lot of foreign exchange to the participating countries.

b) **Optimum utilization of resources:** International business uses capital and technology of rich or developed countries and raw materials and labour of poor or under developed countries. Thus it helps in the optimum utilization of the resources available in various participating countries.

c) **Increases competition:** International business helps in producing good quality goods and services at a very low cost. Thus international business gives a good competition to all the participants but it also gives competition to the domestic industries.

d) **Achieve its objectives:** The main objective of an international business is to earn high profits. This objective can be achieved easily in the global context. This it because it uses the best technology. It has the best employees and managers. It produces high-quality goods. It sells these goods all over the world. All this results in high profits for the players in the international business.

e) **Betterment of relationship:** Since international business involves many participating countries, it helps in improving and strengthening the relationship among the participating countries.

f) **Get benefits from Government:** International business brings a lot of foreign exchange for the country. Therefore, it gets many benefits, facilities and concessions from the government. It gets many financial and tax benefits from the government.



13.12 LET US SUM UP

- General Agreement on Tariffs and Trade (GATT) came into existence in the year 1947 after the World War II.
- The main aim of GATT was to establish a free multilateral trading system and liberalization of international trade, elimination of discrimination in international trade and reduction of all sorts of trade barriers.
- The World Trade Organization came into being in the year 1995, and it replaced GATT.
- The WTO has more than 150 member countries and around 30 negotiating members.
- The Uruguay Round was the eighth round of the GATT which started in the year 1986 and ended in 1994 and 123 countries participated in it.
- The Uruguay Round was one of the most memorable and historical round as it led to the formation of World Trade Organization.
- The formation and functioning of WTO has significantly influenced the nature of global trade. WTO has been widely criticized. However it has earned the acceptability and the number of the member countries is increasing.
- International business can be defined as the exchange or transaction of goods and services between various countries. It has tremendous potential for industries and companies to cover the international market by leveraging the opportunities of technology, access to finance and market etc.



13.13 FURTHER READING

1. Cherunilam Francis. International Business- Text and Cases (Fifth Edition). PHI Learning Private Limited, New Delhi. (2010)
2. Business Environment; Saroj Upadhyay; Asian Books Private Ltd. New Delhi, .2nd Edition, 2005
3. Business Environment; Pippa Riley; Viva Books; New Delhi, Ist Edition, 2011



13.14 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: The Preamble to the GATT mentioned the following as its important objectives.

a) Raising standard of living

b) Ensuring full employment, large and steadily growing volume of real income and effective demand

c) Developing and making full use of the resources of the world.

d) Increase of production and expansion of international trade

Ans to Q2: The three objectives of WTO are as follows.

a) To improve and raise the standard of living of people in the member countries.

b) To ensure full employment and broad increase in effective demand.

c) To increase the production and trade of goods among the member countries.

Ans to Q3: The three characteristics of international business are as follows.

a. Large scale operations: In international business all the activities are conducted at a very large or huge scale. The production, distribution and marketing activities are carried on at a very large scale.

b. Huge investment of money: Since the operations of the international business are carried on at a very large scale, the money or investment involved is also huge.

c. Stiff competition: The competition to survive in the international market is very keen and stiff.



13.15 MODEL QUESTIONS

Q.1. Explain the evolution of GATT.

Q.2. What were the major objectives of GATT?

Q.3. Do you think GATT was important? Discuss.

Q.4. What are the different rounds of GATT?

Q.5. Explain the evolution and structure of WTO.

Q.6. State the major objectives and functions of WTO.

Q.7. Write a note on Uruguay Round.

Q.8. Critically evaluate the functioning of WTO.

Q.9. Explain the characteristics and importance of international business.

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UNIT 14: MULTINATIONAL CORPORATIONS

UNIT STRUCTURE

14.1 Learning Objectives

14.2 Introduction

14.3 Concept of MNCs

14.4 Structure of MNCs

14.5 Types of MNCs

14.6 Objectives of Multinational Corporations

14.7 Characteristics of Multinational Corporations

14.8 Reasons for Growth of Multinational Corporations

14.9 Significance of Multinational Corporations

14.10 Arguments in Favour of Multinational Corporations

14.11 Arguments against Multinational Corporations

14.12 MNCs in India

14.13 Let Us Sum Up

14.14 Further Reading

14.15 Answers to Check Your Progress

14.16 Model Questions

14.1 LEARNING OBJECTIVES

After going through this unit, you will able to-

- explain the meaning and concept of a multinational corporation
- state the objectives, characteristics and significance of MNCs
- discuss the various arguments in favour of and against the multinational corporations
- discuss the status of MNCs in India

14.2 INTRODUCTION

You might have heard of many companies running business in India, like Philips, Siemens, Hyundai, LG, Ford, Nestle, Coca Cola, Sony, McDonald's, Citi Bank, Good Year etc. These companies are not operating

only in India; you will find these companies in many countries. Such companies are called Multinational Corporations.

Multinational Corporations as a subject of study is now attracting attention from business firms, companies, institutions and even from countries. In this unit we are going to study the characteristics of a multinational corporation along with the various advantages and disadvantages associated with it and other aspects associated with MNCs.

14.3 CONCEPT OF MULTINATIONAL CORPORATIONS

The political changes in the erstwhile communist and socialist countries, the economic liberalization across the world has facilitated the growth of the MNCs. Multinational corporations (MNCs) have different names. They are also known as Transnational Corporations (TNCs), Super National Enterprises, Global companies, cosmocorps and so on. The concept of multinational business operation is not new. The British East India Company, Hudson's Bay Corporation and Royal Africa etc. are examples of MNCs.

According to Prof. John H. Dunning, "A multinational enterprise is one which undertakes foreign direct investment, i.e., which owns or controls income gathering assets in more than one country and in doing so produces goods or services outside its country of origin, i.e., engages in international production."

According to the International Labour Organization (ILO) "The essential nature of the multinational enterprise lies in the fact that its managerial headquarters are located in one country, while the enterprise carries out operations in a number of other countries as well."

In simple words an MNC is a corporation that has its management headquarters in one country, known as the home country, and operates in several other countries, known as host countries.

In the current context, especially in international economic affairs, the multinational companies by themselves constitute an important institution. There are basically four participants in the arena of multinationals. Firstly, the MNCs themselves, the host countries, the home countries and the international

environment. Most of the MNCs are in the countries like Japan, USA, Germany, South Korea etc. in addition to the Indian multinationals. The countries with developed and emerging economies constitute the major market. Globalization has facilitated the growth of the MNCs.

14.4 STRUCTURE OF MNCs

Because multinational corporations confront different national environments, geographic

market conditions can play an important role in firm strategies and structures

MNCs have the following three structures-

i. *Horizontally integrated MNCs:* This type of MNCs manage production establishments located in different countries to produce the same or similar products. For example-Dominos, McDonald's. The companies sell standardized products in a cost effective manner. At the same time they tend to be locally responsive. For example, McDonalds sell pakoras in India.

ii. *Vertically integrated MNCs:* Vertically integrated MNCs manage production centers in certain country/countries to produce products that serve as input to its production centers in other country/countries. A company may produce the batteries in one country and use the same in the production process for some other products in some other countries.

iii. *Diversified MNCs:* Diversified MNCs have to focus on global integration pressures, which are formed by the presence of global customers, global competitors, the need for cheaper costs and access to raw materials

14.5 TYPES OF MNCs

Depending upon the work force diversity, MNCs are classified in to following types:

i. *Ethnocentric:* This type of MNCs has strong orientation towards home country. Indian multinationals like Dabur, Infosys, ONGC etc. are

examples. The ethnocentric companies normally have the CEOs and other top functionaries from their home country.

ii. Polycentric: Polycentric type of MNCs has strong orientation towards host countries. They appoint a few people from home countries and remaining are appointed from the host countries.

iii. Geocentric: This type of MNCs seeks total integration of global operations by operating without 'home country' prejudice. They make major decisions for global perspective. The selection for top functionaries is made from different countries. For example, in Pepsico, Indra Nooyi of India is the Chairperson and Chief Executive Officer of PepsiCo. Sundar Pichai is an Indian American business executive. Pichai is the CEO of Google Inc.

14.6 OBJECTIVES OF MULTINATIONAL CORPORATIONS

Following are the objectives of MNCs:

- Exploring profit potential by expanding the business beyond the boundaries of the home country. Profit potential in home countries may be limited.
- Producing goods in those countries where cost of production is low. The cost of production is not same in all the countries.
- Achieving greater efficiency in production in local markets and then exporting the products.
- Creating an international corporate image.
- Capturing lucrative international market.
- Making best use of technological advancement. All countries are not equally developed in technological aspects.

14.7 CHARACTERISTICS OF MULTINATIONAL CORPORATIONS

Multinational corporations have certain characteristics which are discussed below:

1. *Big Size:* The most important feature of multinational corporations is their large size. MNCs have assets and sales that run into billions of rupees. MNCs are very powerful organizations. In 1971 out of the top ninety producers of wealth, 29 of them were MNCs, and the rest were national. The world's top 100 non-financial MNCs, based almost exclusively in developed countries, are the principal drivers of international production.

2. *International Operation:* One of the basic features of a multi-national corporation is that their operation extends to two or more countries. They establish parent office in one country and extend branches, subsidiary and affiliation to other countries. For example the Pepsi Cola Company of the U.S operates in 114 countries.

3. *Advance technology:* Multinational Companies invest huge amount of money in research and development. They do research on developing latest technology of production and developing new product. Such new technologies are transferred to developing countries through their subsidiaries and branches.

4. *High efficiency:* Multinational companies use superior technology, which bring efficiency in the operation. They also use huge amount for training and development of their employees to bring their efficiency at par with the changing technological environment. This also improves overall efficiency of the organization.

5. *Oligopolistic market structure:* An oligopoly is a market structure where only a few firms dominate. MNCs are oligopolistic in nature. They create a separate brand name and capture a huge market. Sometimes they capture a market through trade mark and patent right.

6. *Quality conscious:* MNCs are managed by professionals and experts. They are quality and cost conscious. MNCs believe in total quality management. They constantly carry on research on product development and quality management.

7. *Origin:* Though the concept of MNC is very old their real growth started after the Second World War. Majority of the MNCs are formed in developed countries like USA, UK, Japan, Germany etc. Now a

day's companies from developing countries and emerging economies like India, China, Korea etc. are also operating in the world market.

8. *Management:* The parent company works like a holding company. The subsidiary companies are to operate under control and guidance of parent company. A parent enterprise is deemed as an enterprise that controls assets of other entities in countries other than its home country.

14.8 REASONS FOR GROWTH OF MNCs

With huge financial resources, latest technological know-how, large scale of operation and worldwide operation MNCs are expanding their market throughout the world, particularly in the developing countries. Following are the reasons behind the growth for MNCs:

i. Market for the products of MNC is expanding due to rapid economic growth of the developing and under-developed economies. Due to expansion of market the size and spread of MNCs are expanding.

ii. Marketing superiorities arise because of experiences in global marketing. MNCs are experienced for their worldwide network, product innovation, and effective marketing including brand building measures, sales promotional strategies and logistical arrangements.

iii. MNCs are in a better position to make use of the latest developments in Technology. This results in to production of superior quality product. The MNCs invest in technology development.

iv. MNCs are engaged in constant research on product innovation to meet the requirements of all categories of customers. The pharmaceutical companies are engaged in hard core research to develop new formulations of drugs which the small producers of a country cannot do.

v. MNCs have huge financial resources which makes every big task possible for the MNCs. Availability of huge financial resources with the MNCs helps them to capitalise on the opportunities provided by the business environment. They can convert the circumstances in their favour.



CHECK YOUR PROGRESS

Q.1 : Define Multinational Corporations.

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Q.2 : Mention three characteristics of Multinational Corporations.

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14.9 SIGNIFICANCE OF MULTINATIONAL CORPORATIONS

The multinational corporations today have an astounding effect on the international economic system. It is so because there is a rapid growth of international transactions of the multinationals which has affected the traditional firms in many economies. Today the MNCs constitute a powerful force in the world economy.

The value of the products sold by the MNCs in 1971 was more than $ 500 billion which was about one-fifth of the GNP of the entire world, excepting that of socialist economies. In the host countries, the volume of their production was about $ 330 billion. The situation has changed a lot in the new millennium. The collapse of socialist countries also has changed the global marketing environment.

In the field of international trade and international finance, the multinational firms have come to exercise enormous power. Among the developing countries only India had an annual income twice that of General Motors, which is the biggest multinational corporation. Otherwise the annual income of the other less developed countries is much lesser than that of the giant MNCs. By their huge size the corporations may even disturb the economies of the less developed countries. They may exercise control in the political jurisdiction of the countries even.

The multinational corporations have come a long way. They have gained enough momentum during the last few years. Some of the basic

significant characters that can be found in today's multinational corporations are:

i. *Increased level of investment:* MNCs increase the level of investment in the host country. This leads to increase in the employment and income in the host country. People can join these multinational companies according to their skills or capabilities. Manpower can be well employed in these multinational companies. Think about the extent of investment and employment by companies like LG, Samsung etc. in India.

ii. *Transfer of Advanced Technology:* MNCs act as a vehicle for transfer of technology from developed nations to developing nations. Multinational companies devote a huge amount of money on technological development and invent new technology according to their requirements. Due to this reason multinational corporations are very much up dated in their operations.

iii. *High efficiency:* Due to use of latest technology, constant research and development and skilled man power efficiency of the MNCs are very high compared to other organizations.

iv. *Superior Products:* MNCs generally do not compromise with the quality of the products. Due to this reason their products are widely accepted by the consumers.

v. *Huge Quantity:* A multinational company produces varieties of goods and services in huge quantity. The multinational companies use their own trade mark, patent right, copy right and technology for production and distribution of such goods in the international market.

vi. *Ownership and control:* The ownership of a multinational corporation is shared by both parent company and subsidiary companies according to their arrangement for capital investment. However parent companies manage and control the operation of its branches and subsidiaries through trade mark, technology, and patent right.

14.10 ARGUMENTS IN FAVOUR OF MULTINATIONAL CORPORATIONS

Advantages of Multinational Corporations for the host country

a. The investment level, employment level, and income level of the host country rises due to the operation of MNCs.

b. MNCs bring with them the most sophisticated technology about production process while transferring modern machinery and equipment to the developing countries. Such transfer of technology is assumed to be desirable and productive for the host country.

c. The MNCs bring entrepreneurial abilities, management experience, skills and techniques to the host country especially to the developing countries and make human capital of the host country skilful and efficient.

d. The business volume of domestic traders and market intermediaries of the host country increase due to operation of MNCs.

e. MNCs create competition among domestic companies and thus increase their competitiveness and quality.

f. The host country can lessen imports and increase exports due to goods produced by MNCs in the host country. This lead to increase in the foreign exchange reserve of the host country.

g. Level of industrial and economic development increases due to the growth of MNCs in the host country.

h. By paying duties and taxes MNCs contribute towards the national exchequer of the host country and fill the gap between targeted government tax revenues and locally raised taxes.

i. MNCs help to improve the standard of living in their host countries.

j. MNCs pay high dividends, motivating resource mobilization among investors in the host countries.

Advantages of Multinational Corporation for the home country

a. MNCs create opportunities for marketing the products produced in the home country throughout the world.

b. They create employment opportunities to the people of home country both at home and abroad.

c. It facilitates industrial development of home country.

d. MNCs help to maintain favourable balance of payment of the home country by transferring income in the forms of profit, royalty and management contract from host countries.

e. Home country can also assimilate with foreign culture brought by MNCs.

14.11 ARGUMENTS AGAINST MULTINATIONAL CORPORATIONS

Though MNCs bring many advantages there are many arguments against the MNCs. Following are the reasons due to which MNCs are said to be disadvantageous or harmful.

Disadvantages of MNCs for the host country

a) MNC's may relocate the technology which has become obsolete in the home country.

b) MNCs harm employment in those countries where supply of labour is excessive by using capital intensive technology and make the employment problem more serious.

c) The tremendous power of MNCs may pose threat to the sovereignty of the host country. An example in this regard is the East India Company, which came to India to do business and later on ruled India for more than 200 years.

d) MNCs may destroy the domestic industry by monopolizing the host country's market and reduce competition.

e) The main objectives of MNCs are profit maximization and not the development of the host country.

f) MNCs may interfere directly or indirectly in the political and administrative system of the host country.

g) In order to gain more money, MNCs may use non-renewable natural resources of the host country in a large extent.

h) A big amount of money moves to foreign countries in terms of payments towards profits, dividends and royalty which create unfavourable balance of payment position.

Disadvantages of MNCs for the home country

a) MNCs may shift huge capital from the home country to various host countries causing undesirable balance of payment.

b) MNCs may not create employment opportunities to the people of home country if it takes the geocentric approach.

c) When investments in foreign countries becomes more attractive and rewarding, MNCs may avoid investment in the home countries; thus hampering industrial or economic development.

d) They may prefer to participate in the production of mass consumption and non-essential items elsewhere rather than making investment in the prioritised sector of the home country.

14.12 MNCS IN INDIA

India is a favourable destination for MNCs. Long-time back world's leading MNCs like Microsoft Corporation, Nestle, Procter and Gamble, Pepsi co, Sony Corporation, Coca Cola etc. entered in Indian market. The first MNC to start business in India was the East India Company, which later on started ruling India. After independence, for a quit long time India had a restrictive policy in terms of foreign investment. Due to this reason there was lesser numbers of foreign companies in India. But the scenario changed after adopting the Liberalization Privatization and Globalization (LPG) policy in 1991. The Indian economy experienced many changes after 1991 and many foreign companies started their operation in India. As on 31st December, 2014, there were 4170 registered foreign companies in India. There are many reasons for the growth of MNCs in India. Some of them are discussed below.

a) **Large market potentiality:** With its 1.2 billion plus people, India's population is second only to China. But till now a huge section of Indian population is deprived of basic needs of life like electricity, education, health care, housing, nutrition etc. So, there is a huge market potentiality in every sector in Indian economy.

b) **High growth and increasing purchasing power:** India is a fast developing nation and ranked second among the developing nations of the world. India's growth rate is more than 7% per annum. The income level of Indian middle class is increasing and at the same time the percentage of middle income group population in India is also increasing. It is estimated that India's middle class population will increase to 90% of its total population by 2040. This will create a lot of demand for essential / luxury goods and services in India and that is why all major companies of the world are eying at India.

c) **Competitive human resources:** About 50% of Indian population are below the age of 28 years which is a major work force of the world. Many of these workforce will be English-speaking, educated and skilled. Beside these factors in India labour is cheap compared to developed nations. This will be a big advantage to the MNCs and there is huge scope for India to become a production hub of the world.

d) **Government support:** Realizing the needs of foreign investment in India Government of India has taken many supportive policy decisions to attract all kinds of foreign investment including the investment from the MNCs. Some of those policies are:

i. Both revenue and capital expenditure on R&D are 100% deductible from taxable income under the Income Tax Act.

ii. A company whose principal objective is research and development is exempt from income tax for ten years from its inception. Accelerated depreciation is allowed for investment in plant and machinery made on the basis of indigenous technology.

iii. Customs and excise duty exemptions are there for capital equipment and consumables required for R&D.

iv. Most of the sectors including manufacturing activities permitted 100% FDI under automatic route. This plays a major role in attracting MNCs in India.



CHECK YOUR PROGRESS

Q.3 : Give two arguments in favour of multinational corporations for the host country.

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Q 4: Give two arguments against multinational corporations for the home country.

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14.13 LET US SUM UP

In this unit we have discussed the following:

- MNC is a corporation that has its management headquarters in one country, known as the home country, and operates in several other countries, known as host countries.
- MNCs have the following three structures- horizontally integrated MNCs, vertically integrated MNCs and diversified MNCs.
- Depending upon nature of operation, MNCs are classified as Ethnocentric, Polycentric and Geocentric.
- With huge financial resources, latest technological know-how, large scale of operation and worldwide operation MNCs are expanding their market throughout the world, particularly in the developing countries.
- MNCs have many advantages and disadvantages in both home and the host country.



14.14 FURTHER READING

1. Cherunilam Francis. International Business- Text and Cases (Fifth Edition). PHI Learning Private Limited, New Delhi. (2010)
2. Business Environment; Saroj Upadhyay; Asian Books Private Ltd. New Delhi, .2nd Edition, 2005

3. Business Environment; Pippa Riley; Viva Books; New Delhi, Ist Edition, 2011



14.15 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: MNC is a corporation that has its management headquarters in one country, known as the home country, and operates in several other countries, known as host countries.

Ans to Q2: The three characteristics of a MNC are :

i. International Operation
ii. Big Size
iii. Collective Transfer of Resources

Ans to Q3: The two arguments in favour of host country are as follows:

a) The investment level, employment level, and income level of the host country rises due to the operation of MNCs.
b) MNCs create competition among domestic companies and thus increase their competitiveness and quality.

Ans to Q4: The two arguments against home country are as follows:

i. MNC's may relocate the technology which has become obsolete in the home country.
ii. MNCs harm employment in those countries where supply of labour is more by using capital intensive technology and make the employment problem more serious.



14.16 MODEL QUESTIONS

Q.1. Discuss the characteristics of Multinational Corporation.

Q.2. Discuss the reasons for growth of multinational corporations.

Q.3. Why do the MNCs invest in India?

Q.4. What are the advantages of MNCs in the home country and the host countries as well?

Q.5. What are the disadvantages of MNCs in the home country and the host countries?

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UNIT 15: CASES RELATED TO BUSINESS ENVIRONMENT

UNIT STRUCTURE

15.1 An introduction on Management Cases

15.2 Look Act Policy

15.3 Taste of India and Deshi Companies

15.4 Changes in business environment

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15.6 Food Enrichment for a Healthier India

15.7 McDonalds in India

15.8 Mumbai Dabbawala

15.1 AN INTRODUCTION ON MANAGEMENT CASES

In simple terms, a case is a description of a management situation. The length of a case may vary from one page to several pages. In some cases to present quantitative and analytical data and information, exhibits and figures are provided. All these information provide the required inputs for case analysis. While reading and analysing the case, the reader should try to find out the management problem in the case. The focus of the case should be identified. Cases are prepared from field data or from published sources. The websites of the concerned business organizations or the published reports etc. provide the required information. Many of the information related with a case may be available in the public domain. Some cases may require analysis of interpersonal relations, disciplinary issues in an organization. In those situations, in house materials in the organization provide the required information and those information are presented in the case. A case is not written or analysed to illustrate correct or incorrect handling of an administrative situation. There is no bias towards a particular conclusion. The analysis should be rational, free from bias. A chronological series of cases based on a single organization is sometimes used to expose

the learner to an organization's cumulative experience with a situation.

Cases are used to develop an analytical bent of mind and also for class discussion in a variety of educational programs. At the KKHSOU in the Master of Business Administration (MBA) Programme a few cases have been offered in this Unit for reading and analysis by the learners. The short cases (can also be said as case lets) offer the learners an experience in dealing with complex, realistic situations. The emphasis is on analysis and exposure to decision making in real life organizational situations.

In some cases questions are given at the end of the case. In those cases the learners should read the case and answer the questions with an analytical approach. In the cases, where information may be available in the public domain, the learner may update himself or herself accordingly before approaching the issues. In some cases, there may not be any question at the end. In those cases, the learners should try to identify the main problem and the key issues, search for the decision alternatives and should try to contemplate measures towards solving the management problem.

15.2 CASE-I LOOK ACT POLICY

The Government of India under the leadership of Prime Minister Narendra Modi has made its endeavour to strengthen its relations with East Asian neighbours. Accordingly a change has been initiated in the foreign policy. A new outlook called Act East Policy as a follow up of Look East Policy, was introduced.

From the very beginning the Modi government made it clear that India would focus more and more on improving relation with the East Asian countries as per India's Look East Policy which was formulated during the government of PV Narasinha Rao in 1992 for better economic engagement with its eastern neighbours. The successive governments worked on it for forging strategic partnership and security cooperation with countries in that region. The Association of Southeast Asian Nations (ASEAN), as it exists today, is a political and economic organisation of ten Southeast Asian countries. It was formed on 8 August 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Since then, membership has expanded to include Brunei, Cambodia, Laos, Myanmar and Vietnam.

With a total population of 1.8 billion, fast growing economies, and a combined GDP of $3.8 trillion (as on 2015), ASEAN and India together become economically important. ASEAN-India Free Trade Area, operational since 1 January 2010 is the defining factor of ASEAN-India economic relations. Till 2014, there was free trade in goods, which had resulted in negative trade balance for India. An agreement on free trade in services and investments was signed in 2014 and became operational from July 2015.

The India-Myanmar-Thailand Trilateral Highway, the Kaladan Multi-modal Transit Transport Project , and the Moreh-Mandalay Bus Services are some of the infrastructure projects under progress.

The Mekong-Ganga Cooperation (MGC), launched in 2000, is an initiative by India and five ASEAN countries, namely, Cambodia, Laos, Myanmar, Thailand and Vietnam, for cooperation in tourism, culture, education, transport and communications.



CHECK YOUR PROGRESS

Q.1 : How can India strengthen relationship with ASEAN countries.

Q.2 : What could be the benefits for India in strengthening relationship with ASEAN countries?

15.3 CASE -II TASTE OF INDIA AND DESHI COMPANIES

Deshi snacking companies Balaji Wafers, Prataap Foods, Bikanervala, Bikaji Foods and DFM Foods etc. have recorded sales growth of 8 to 35% in the year ended March 2016. According to market researcher Euromonitor, sweet and savoury snacks have grown by 26%, highest within packaged food segment between 2010 and 2015. Packaged namkeen has been a strong competitor to western snacks such as potato chips and finger sticks within branded salty snacks market.

International food giants and majors such as GSK Consumer, PepsiCo's food division and Mondelez struggled to grow their business amid slowing rural demand and discretionary spends. The five desi firms as mentioned above have a combined sales of nearly Rs. 3700 crore, that is higher than Nestle's Maggi. A few of the desi firms are larger than Kellog's

in India. GSK Consumer posted negative sales growth in 2015-16 while Pepsi Co's food division and Mondelez both grew 4%.

Indian consumers seem to have preferred their taste for traditional snacks such as bhujia, farsan, namkeen etc. Experts and company insiders attributed the growth of desi players to lower price points, increased distribution and conversion from unorganised market. The local firms are stated to keep their overhead costs low making the products affordable to a large number of customers. They had modified the offerings too. In Rajasthan, there were healthier variants for expansion of the market.

On an average, regional snack brands offer 30% higher volume than multinational competitors at similar price points of Rs.5 and Rs.10. The domestic manufacturers are increasing their distribution and penetration into rural India and have launched smaller packs at lower price points. The research firm Euromonitor expects the salty snacks segment to surpass biscuits with sales of nearly Rs. 35,000 crore by 2020 up from Rs.19000 crore in 2015.



CHECK YOUR PROGRESS

Q.1 : What could be the reasons for change in the business environment favouring the domestic players in snacks market?

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Q.2 : Can the international players change the dynamics in the snack market?

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Note : The case is developed from materials available in 'Taste of India : Desi Companies Feast on Snack Market' published in The Economic Times, 20 December, 2016, Page 1

15.4 CASE-III CHANGES IN BUSINESS ENVIRONMENT

Growth in the infrastructure sector is one of the essential factors contributing to the gross domestic product of a country. The initiatives of government can play a very important role in this regard. For example, growth in the power sector of India can be attributed to initiatives of government.

Initiatives like mega-power policy, ultra mega power projects, the build-own-operate-transfer/build-own-operate-maintain models; public-private partnerships in transmission projects, power development and reform programmes etc. can be mentioned. These initiatives are having an impact on all the three segments of power sector - generation, transmission and distribution. Due to this, demand for all major electrical power products such as transformers and switchgears have increased. The domestic demand for transmission and distribution (T&D) is expected to grow. The local manufactures have gathered adequate knowledge on technology, production processes. They have exclusive sales and service networks across the country.

The local manufacturers spend money on market survey and collecting industry specific information. They have augmented their production capacity after gaining indications of growth in the power sector. The market growth potential has attracted the foreign players. The foreign companies have installed facilities leading in a demand supply mismatch. Supply for T & D products is more that has resulted in price competition. Domestic players are losing market share to foreign players, especially in the ultra-high voltage segment. The business environment appears to be economically advantageous and technologically challenging.



CHECK YOUR PROGRESS

Q.1 : What measures should the local players take in order to thrive on the changes in its business environment?

Note : The case is adapted from a case published in Marketing - Asian Edition by Baines et al, Oxford University Press, 2011

15.5 CASE-IV BASMATI RICE

Basmati is a variety of long, slender grain aromatic rice which is traditionally from Northern India and Pakistan. As of 2014, India exported 65 percent of the overseas basmati rice market, while Pakistan accounted

for the remainder, according to the state-run Agricultural and Processed Food Products Export Development Authority (APEDA). However many countries use domestically grown Basmati rice crops.

Exporters of basmati rice use "purity certificates" based on DNA tests for their basmati rice consignments. Based on this protocol, which was developed at the Centre for DNA Fingerprinting and Diagnostics, the Indian company Labindia has released kits to detect basmati adulteration.

In September 1997, a Texas company, RiceTec, was granted U.S. Patent No. 5,663,484 on "basmati rice lines and grains". The patent secures lines of basmati and basmati-like rice and ways of analyzing that rice. RiceTec, faced international outrage over allegations of biopiracy. It had also caused a brief diplomatic crisis between India and the United States, with India threatening to take the matter to the WTO as a violation of TRIPS. Both voluntarily and due to review decisions by the United States Patent and Trademark Office, RiceTec lost or withdrew most of the claims of the patent, including, most importantly, the right to call their rice lines "basmati".A more limited varietal patent was granted to RiceTec in 2001 on claims dealing with three strains of the rice developed by the company. According to the WTO agreement, geographical indications like basmati can be legal protected and their misuse can be prevented.



CHECK YOUR PROGRESS

Q.1 : Can neem or turmeric be patented?

Q.2 : Evaluate the role played by the Government of India in preventing the 'misuse' of the name 'basmati'.

15.6 CASE-V FOOD ENRICHMENT FOR A HEALTHIER INDIA

Food is the source of nutrition to all of us. That is its primary function. However, food can also be considered as a socio economic, cultural and political entity. Adequate nutrition is important for body to be functionally fit and energetic and also to ensure cognitive function. In India we are having two fold challenges. First is to ensure food security for all its population and the second is to ensure adequate nutrition among the population. Given the

large scale of both the aspects, staple foods and enrichments with value added ingredients can be considered as accessible and effective solution.

Having a wide access to food does not rule out the nutritional imbalances. Nutrition is a growing problem even amongst those who can afford food and those who have easy access. Food habits and the emerging trends of outside eating are posing nutritional challenges to the economically advantaged segment of the population. Because of lack of awareness of the macro and micro nutrients in the food, there is a rise of a wide range of diseases across population segments in India.

In the bottom of the pyramid (BoP) of the population structure, we find hunger and malnutrition. In the top echelon of the pyramid comprising the super-rich category, we are witnessing a rise in lifestyle related diseases such as obesity, hypertension, diabetes and cardio vascular problems. The impact of malnutrition is costing India real money as millions are being spent on healthcare.

To sort out the problems several measures may be contemplated.

1. Food fortification with vitamins may be served as a public health measure to address population-wide nutrition deficiency. Fortification does not require changes in existing food patterns and habits. It does not alter the characteristics of food. It can be introduced quickly. It has the potential to provide nutritional benefits for the nutritionally deprived population in a short period of time. It may be acceptable from the socio-cultural perspectives
2. For the health conscious consumers looking for foods with additional health benefits, functional value ingredients such as proteins, cultures, probiotics, carbohydrates, dietary fibres etc. may be added. These ingredients deliver benefits of weight, wellness, increased immunity, improved digestion etc. without compromising on tate and texture of our local foods

   While exploring alternatives and measures, not only the nutritional aspects, we need to examine the economic, safety, regulatory and

technical aspects also. The delivery platforms, right application and cost effectiveness will also influence the actions.



CHECK YOUR PROGRESS

Q.1 : Can fortification provide an opportunity for manufacturers to do good and also to grow business at the same time?

Q.2 : 'The cost of fortifying foods is negligible and the impact is immensely positive. A strong India will ensure a productive India and fortification is a vital strategy to this mission.' If this is so, why does fortification is not happening in India to the desired extent?

Q.3 : The food marketers in India need to enable Indians to eat nutrition enriched food by providing products that appeal to the taste and are at the right price point. This is not happening. What could be the reasons?

Note : The case is developed from 'Food Fortification' published in The Economic Times, 20th December, 2016 page 15

15.7 CASE- VI MCDONALDS IN INDIA

McDonald's is the world leader in QSR (Quick Service Restaurants). Their presence in 118 countries with 33,000 restaurants glorifies its position as world leader and as a fast food giant. This huge network is not easy to manage where guest expectations in different countries are clean, hygienic, tasty and quick food every time. The credit of this successful availability goes to the unique supply chain management the company follows and control over its huge network.

McDonald's is present in more than 40 cities of India with 250 eating outlets and adding more every now and then. The company outsources the huge supply chain. This supply chain is multi-layered but very well coordinated. McDonald's Supply Chain is quite uniquely handled with least

number of employees on McDonald's payroll. The control on outsourced entities is commendable. With ever growing business of fast food, McDonald's has laid down its systems efficiently and the company is expanding at a fast speed.

For training their staff company takes all its measure through intensive programmes. Utmost care is taken for management of quality in all aspects of management functioning.

McDonald's being a limited menu restaurant is characterised by speed of operations, serving more than 67 million customers each day globally. In India, the first outlets of the chain threw open their doors to the public in Delhi and Mumbai in. In India McDonald's serves 650,000 customers daily.

McDonald's Supply Chain is quite uniquely handled with least number of employees on McDonald's payroll. The control on outsourced entities is commendable. With ever growing business of fast food, McDonald's has laid down its systems efficiently. The chain is expanding at a fast speed.



CHECK YOUR PROGRESS

Q.1 : Can the model of McDonalds be replicated in other sectors as well?

Note: The case let is adapted from the Case Study on the McDonald's Supply Chain in India, by Prof. Kshitiz Sharma, published in Asia Pacific Journal of Marketing & Management Review, Vol.2 (1), January (2013)

Online available at indianresearchjournals.com

15.8 CASE-VII MUMBAI DABBAWALA

A dabbawala; also spelled as dabbawalla or dabbawallah, (tiffin wallah); is a person in India, most commonly in Mumbai, who is part of a delivery system that collects hot food in lunch boxes from the residences of workers in the late morning, delivers the lunches to the workplace, predominantly using bicycles and the railway trains, and returns the empty

boxes to the worker's residence that afternoon. They are also used by meal suppliers in Mumbai, where they ferry ready, cooked meals from central kitchens to the customers and back.

In Mumbai, most office workers prefer to eat home-cooked food in their workplace rather than eat outside at a food stand or at a local restaurant, usually for reasons of taste and hygiene, hence the concept of dabbawalah. A number of work-from-home women also supply such home-cooked meals, delivering through the dabbawala network.

A collecting dabbawala, usually on bicycle, collects dabbas either from a worker's home or from the dabba makers. As many of the carriers are of limited literacy (the average literacy of Dabbawallahs is that of 8th grade), the dabbas (boxes) have some sort of distinguishing mark on them, such as a colour or group of symbols.

The dabbawala then takes them to a sorting place, where he and other collecting dabbawalas sort the lunch boxes into groups. The grouped boxes are put in the coaches of trains, with markings to identify the destination of the box (usually there is a designated car for the boxes). The markings include the railway station to unload the boxes and the destination point with delivery address.

At each railway station or a common point, boxes are handed over to a local dabbawala, who delivers them. The empty boxes are collected after lunch or the next day and sent back to the respective houses. The dabbawalas also allow for delivery requests through SMS.

Lunch boxes are marked in several ways: (1) abbreviations for collection points, (2) colour code for starting station, (3) number for destination station and (4) markings for handling dabbawala at destination, building and floor.

A colour-coding system identifies the destination and recipient. Each dabbawala is required to contribute a minimum capital in kind, in the form of two bicycles, a wooden crate for the tiffins, white cotton kurta-pyjamas, and the white Gandhi cap (topi). Each month there is a division of the earnings

of each unit. Each dabbawala, regardless of role, is paid around 8,000 rupees per month (about US$131 in 2014). Between 175,000 and 200,000 lunch boxes are moved each day by 4,500 to 5,000 dabbawalas.

It is frequently claimed that dabbawalas make less than one mistake in every six million deliveries, however this is only estimation from Ragunath Medge, the president of the Mumbai Tiffinmen's Association in 1998, and is not from a rigorous study. Medge told Subrata Chakravarty, the lead author of the 'Fast Food' article by Forbes where this claim first appeared, that dabbawalas make a mistake "almost never, maybe once every two months" and this statement was extrapolated by Subrata Chakravarty to be a rate of "one mistake in 8 million deliveries."

Subrata Chakravarty recalled the affair in an interview and said:

"Forbes never certified the dabbawalas as being a six-sigma organization. In fact, I never used the term at all. As you know, six-sigma is a process, not a statistic. But it is commonly associated with a statistic of 1.9 errors per billion operations, and that is what caused the confusion. I was impressed by the efficiency and complexity of the process by which some 175,000 tiffin boxes were sorted, transported, delivered and returned each day by people who were mostly illiterate and unsophisticated. I asked the head of the organization how often they made a mistake. He said almost never, maybe once every two months. Any more than that would be unforgivable to customers. I did the math, which works out to one mistake in 8 million deliveries-or 16 million, since the tiffin carriers are returned home each day. That is the statistic I used. Apparently, at a conference in 2002, a reporter asked the president ... whether the tiffinwallahs were a six-sigma organization. He said he didn't know what that was. When told about the 1.9 error-per-billion statistic, I'm told he said: "Then we are. Just ask Forbes". The reporter, obviously without having read my story, wrote that Forbes had certified the tiffinwallahs as a six-sigma organization. That phrase was picked up and repeated by other reporters in other stories and now seems to have become part of the folklore



CHECK YOUR PROGRESS

Q. 1 : Can the model of Mumbai Dabbawalas be replicated in other cities of India?

Note: The case is adapted from the reading material available in and through the web link https://en.wikipedia.org/wiki/Dabbawala, accessed on 18th July 2016

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