GBA S1 04

BUSINESS ENVIRONMENT

SEMESTER – 1

BACHELOR IN BUSINESS ADMINISTRATION

BLOCK 1

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Reprint, April 2018

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

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The University acknowledges with thanks the financial support provided by the **Distance Education Bureau**, **UGC** for the preparation of this study material.

BACHELOR IN BUSINESS ADMINISTRATION

BUSINESS ENVIRONMENT

Block 1

DETAILED SYLLABUS

UNIT 1 : Introduction to Business Environment **Page : 7-25**

Meaning and concept of Business, characteristics of Business, components and types of industry and commerce, meaning of business environment, micro and macro environment, importance of business environment

UNIT 2 : Business and Society **Page : 26-36**

Concept of social environment of business, meaning of social responsibility of business and corporate governance, benefits of good corporate governance.

UNIT 3 : Industrial Policies **Page : 37-55**

Meaning of developed economy, mixed economy and economic reforms, evolution of Industrial Policy in India, industrial policy revolution up to 1991, new industrial policy 1991 and its evolution, Privatization and disinvestment, and IRDA

UNIT 4 : Natural and Technological Environment **Page : 56-68**

Natural environment and its emerging trends, technological environment and its emerging tends, Innovation, technology and competitive advantages, It and business environment.

UNIT 5 : Small Enterprise and Village Industries **Page : 69-82**

Definition and characteristics of small enterprises, relationship between small and large enterprises, objectives and scope of small enterprises, role of small enterprise in economic development and problems of small scale units

UNIT 6 : Industrial Sickness **Page : 83-94**

Meaning of Industrial Sickness, warning signals of Industrial sickness, external and internal causes of industrial sickness, consequences of industrial sickness, and corrective measures

UNIT 7 : Labour Environment **Page : 95-114**

Concept of Labour market, labour legislations, labour welfare, definition of industrial relation; trade union ;workers participation in management; quality circles , VRS and Golden handshakes

COURSE INTRODUCTION

This course is designed to cover the in-depth and essential concepts concepts within business related subjects. In this challenging time it is very much essential to study the turbulent business environment. Knowledge of the business environment will enable the learners to place every issue related to business in its proper perspective and make a sound decision to solve the problem. This course related to business environment is a comprehensive self learning material which covers the discussions of all environmental factors in greater detail. The discussion throughout the course is simple and logical. This self learning material is humble attempt to draft the various important aspects of the business environment interface. The course is divided into two blocks: Block 1 and Block 2

Block 1 deals with the concept of Business,social environment of business, developed economy, mixed economy and economic reforms, natural environment and its emerging trends, definition and characteristics of small enterprises, Industrial Sickness, Labour market,

Block 2 concentrates on labour legislations, money market and capital market , evolution (GATT, WTO and Uruguay Round Agreement, Definition and meaning, MNCs and International trade, Patent and trade marks, Planning in India, planning commission, Industrial development, cases related to Business Environment

Each unit of these blocks 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. And, at the end of each section, you will get “CHECK YOUR PROGRESS” questions. These have been designed to self-check your progress of study. It will be better 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.

BLOCK INTRODUCTION

This is the first block of the course '***Business Environment'***. The Block is divided into 5 units which are related to the concepts of Business Environment. Block 1 deals with the concepts of business environment and overview of business and society, industrial policies, small enterprise and village industries and natural and technological environment. This block is designed to provide a comprehensive introduction to the study of environment business. It is primarily a learner oriented Self learning material, as it satisfies the requirements of the learners in the filed of 'Business Environment'.

The block is divided into 7 units which are as follows :

UNIT 1: **Introduction to Business Environment**

UNIT 2: **Business and Society**

UNIT 3: **Industrial Policies**

UNIT 4: **Natural and Technological Environment**

UNIT 5: **Small Enterprise and Village Industries**

UNIT 6: **Industrial Sickness**

UNIT 7: **Labour Enviornemnt**

UNIT 1: INTRODUCTION TO BUSINESS ENVIRONMENT

UNIT STRUCTURE

1.1 Learning Objectives

1.2 Introduction

1.3 Meaning and concept of Business

1.4 Characteristics of Business

1.5 Components of Business

- 1.5.1 Types of Industry
- 1.5.2 Commerce

1.6 Meaning of Business Environment

1.7 Micro and Macro Environment

- 1.7.1 Difference between Micro Environment and Macro Environment

1.8 Importance of Business Environment

1.9 Environmental Analysis

1.10 Let Us Sum Up

1.11 Further Reading

1.12 Answers to Check your progress

1.13 Model Questions

1.1 LEARNING OBJECTIVES

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

- understand the meaning and concept of Business
- outline the characteristics of Business
- understand the meaning and concept of Business Environment
- discuss the characteristics of Business Environment
- explain the difference between micro and macro environment
- explain the meaning and objectives of Environmental Analysis

1.2 INTRODUCTION

The first unit of the paper on business environment discusses the

major objectives of business like survival, stability, growth etc. 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; and its elements like customers, competitors, organizations, market, suppliers, intermediaries etc.In addition to this, the unit will discuss impact of demographic, economic, government, legal, political, cultural, technological and global environment on business.

In this unit, we shall also discuss the concept of business, characteristics of Business Environment, Internal and External Business Environment, meaning and objectives of Environmental Analysis.

1.3 MEANING AND CONCEPT OF BUSINESS

In simple words business means an occupation in which people regularly engage in an activity with a view to earning profit. The term business is derived from the word 'busy'. 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 definition of business given by some scholars:

According to Prof. R. N. Owens: "Business is an enterprise engaged in the production and distribution of goods forsale in a market or rendering of services for a price"

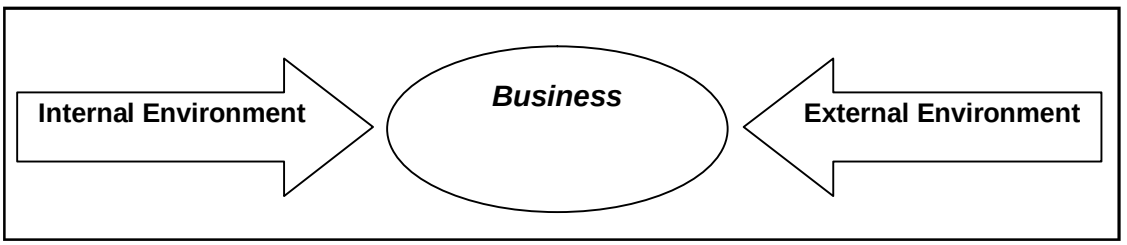
According to L.R. Dicksee: "Business is a form of activity pursued primarily with the object of earning profitsfor the benefit of those on whose behalf the activity is conducted"

According to Urwick and Hunt: "Business is any enterprise which makes, distributes or provides any article or servicewhich other members of the community need and are willing to pay for"

According toHaney:"Business may be defined as human activity directed towards producing or acquiringwealth through buying and selling of goods"

From the definitions above it can be summarized that business is an integral part of the ecology and social system and therefore, its decision and performance are influenced by a host of diverse factors both internal

and external environment. Business mainly comprises of all profit seeking activities of the organization which provide goods and services that are necessary to the economic system.



The word environment means a "surrounding that influences development and growth of any situation". Business environment implies the internal and external factors or economic and non-economic factors which influences the business.

Business may be classified in the following ways:

a. Business that produces Goods
b. Business which produces Services
c. Business that distribute Goods
d. Business that facilitate distribution of Goods
e. Business that deals in Finance and Financial Services

Let us discuss it in detail:

a. Business that produces 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 sectorfor example 'Manufacturing' industries.

The conceptof commodity and product can be with the help of the following examples. Wheatis 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 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 servicesare

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 alarge extent on funds raised from external sources. The examples are: commercial banks, developmental banks,and insurance and investment companies.



CHECK YOUR PROGRESS

Q 1: Define Business

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Q 2: Fill in the blanks

a. Commodities are the goods produced in the ……sector

b. Service sector is a part of …….. sector

c. Commercial banks and developmental banks are examples of …….. services

1.4 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

I ***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 publicwith the things it needs and wants in order to survive, enjoy life and improvein a material sense. Business provides the solution to the needs and desire of the customers.

- ***Profit Motive:*** The other characteristic of business is the profit motive. Business is always a profit seeking activity. It supplies goods and services tocustomers who satisfy their demand and desire. It adds to society's valueby earning of a profit. Profit is the biggest stimulus for survivalof the business and its future development. Society permits business toearn profit as a reward for assuming the risks of operating a business.
- **Recurring Activities:** All the activities in business are recurring in nature and it operates in a continuous basis. Business is not one time activity.
- **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.
- **Society Oriented:** Business is also an essential participant in society. As a result, society looks tobusiness 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.

1.5 COMPONENTS OF BUSINESS

Business activities can be categorised under two heads. They are as follows:

- Industry
- Commerce

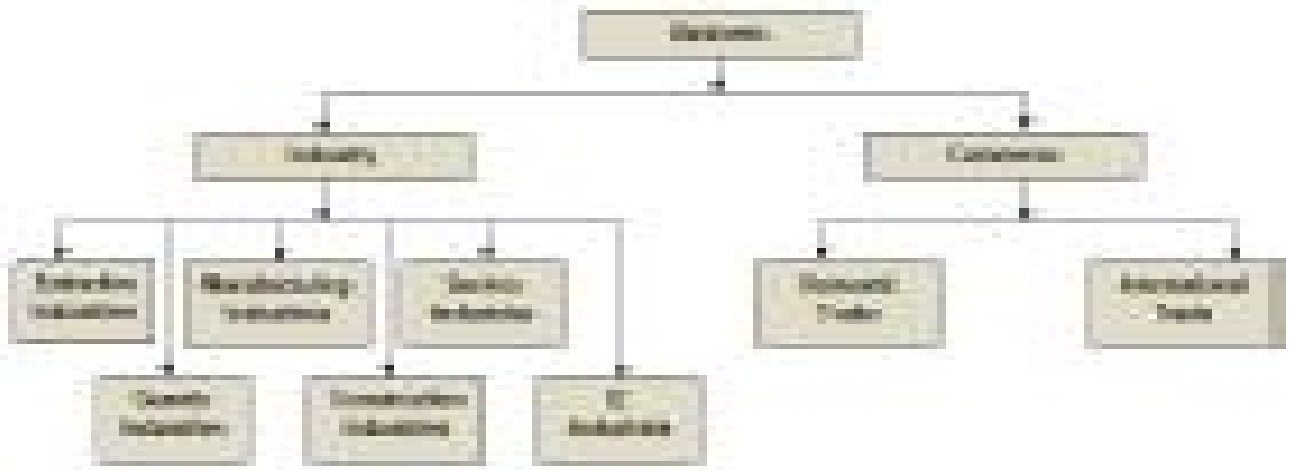


Figure 1.1: Components of Business

First let us discuss the concept of Industry. In broad sense, industry is the branch of business activities which is concerned with raisingproduction, fabrication or possessing of goods and services.

Industryis an activity concerned with conversion of raw materials or semi-finished goods intofinished goods. Industry provides two types of goods; namely consumer goods andIndustrial goods. Consumer goods are those goods manufactured by industry forultimate use of a consumer; for example toothbrush, toothpaste, cloth and food products etc.Industrial\Capital goods are those goods produced and used for further production.

Let us discuss the various types of industry in the following sections

1.5.1 Types of Industry

Industry is further classified into five broad types. They are as listed below with a brief description on each of them.

a. ***Extractive industry:*** Extractive industries are those industries concerned with extraction of wealth fromsurface of the earth, soil, forest, water, air etc., for instance agriculture, mining etc.

b. ***Genetic industries:*** Genetic industries are those industries concerned with reproduction and multiplication of plants and animals for making profit on their sale. For example, nurseries,cattle building and poultry farming etc.

c. Manufacturing industries: Manufacturing industries are engaged in the conversation and process of raw materialthrough separation, combination and transformation into finished goods. Examples includemachinery and plants of all types, iron and steel, sugar, paper, cotton cloth, electricalappliances, zinc ore, paper pulp,etc.

d. Construction industries: Construction industries are concerned with the construction of roads, railways, dams,canals, buildings, bridges etc. These are mainly concerned with the manufacture ofnon-moveable items.

e. Service industries: Service industries produce intangible entities which cannot be seen or touched. Examples include banking, transport, insurance, communication andservices of a professionalslike lawyers, doctors, dentists, managementconsultants, advertisers, chartered accountants and engineers, etc.,

f. IT Industries: It is a major industry facilitating and driving the growth of a number of other industries. ITES (Information Technology Enabled Services) is an emerging sector. Examples include Call Centres, BPOs etc.

1.5.2 Commerce

Commerce has been defined as "the sum total of those processes which are engaged inthe removal of the hindrance of persons (trade), place (transport and insurance), andtime (warehousing) in the exchange (banking) of commodities".

***Trade*:** Trade means sale, transfer, or exchange of goods and services, through certainancillary functions like packing, warehousing, banking, transportation, insurance,and advertising. Trade may be

- Domestic Trade
- International Trade



CHECK YOUR PROGRESS

Q 3: Define Trade.

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Q 4: Give some examples of service Industries and manufacturing industries.

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1.6 MEANING OF BUSINESS ENVIRONMENT

Business environmentimplies 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.

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



From the above section it is become clear that every business organization is a part of the business environment, within which it operates. No entity can function in isolation because there are many factors that are directly or indirectly related to the business, which is known as business environment.

1.7 MICRO AND MACRO ENVIRONMENT

The external environment is broadly classified into two categories, i.e. **microenvironment** and **macro environment**.

Let us discuss these in detail in the following sections:

(i) Micro Environment of Business: 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. 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.

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

(ii) Macro environment of Business: Macro environment refers to the forces and institutions outside the organization that can potentially affect the performance of the organization. These forces originate beyond the firm's operating situation. The study of Macro Environment is known as PESTLE Analysis. PESTLE stands for the variables that exist in the environment, i.e. Population & Demographic, Economic, Socio-Cultural, Technological, Legal & Political, and Environmental. These variables,encompass economic and non-economic factors like social concerns, government policies, family structure, population size, inflation, GDP aspects, income distribution, ethnic mix, political stability, taxes and duties etc.

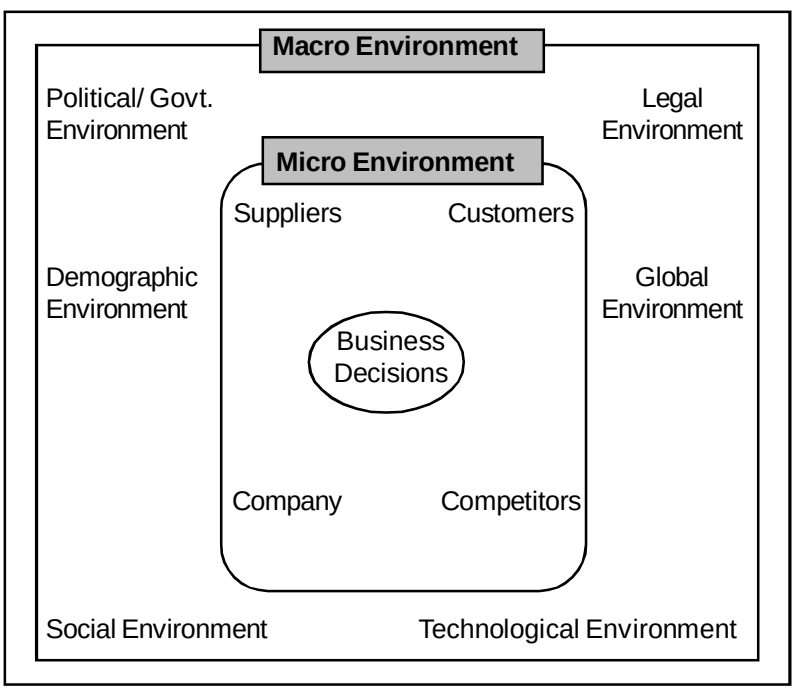


Figure 1.2 : Macro and Micro Environment

1.7.1 Differences between Micro Environment and Macro Environment

The following are the major differences between micro and macro environment:

1. Micro environment is the environment which is in immediate contact with the firm. The environment which is not specific

for a particular firm but has the ability to influence the working of all the business groups is known as Macro Environment.

2. Micro Environment may also be considered as internal environment of business, whereas Macro Environment is the external environment.
3. The factors of the micro environment affect the particular business only, but the macro environmental factors affect all the business entities.
4. The micro environmental factors are controllable by the business to some extent; however the macroeconomic variables are uncontrollable.
5. The elements of the micro environment affect directly and regularly on the firm; in case of the macro environment it is not that direct and regular.



CHECK YOUR PROGRESS

Q 5: What is Micro Environment?

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Q 6: What is meant by Business Environment?

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1.8 IMPORTANCE OF BUSINESS ENVIRONMENT

There is a close and continuous interaction between the business and its environment. If managed well, thisinteraction helps in strengthening the business firm and using its resources more effectively.

As stated above, the business environment is multifaceted, complex, and dynamic in natureand has a far-reaching impact on the survival and growth of the business. To be morespecific, proper understanding of the social, political, legal and economic environmenthelps the business in the following ways:

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

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

(c) Continuous Learning: Environmental analysis makes the task of managers easier indealing with business challenges. The managers are motivated to continuously updatetheir knowledge and skills to meet the predicted changes in realm ofbusiness.

(d) Efficiency development: Environmental understanding helps the business organisations inimproving their functioning by showing their sensitivity to the environment within which theyare working. For example, in view of the shortage of power, many companies haveset up Captive Power Plants (CPP) in their factories to meet their own requirement ofpower

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

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

1.9 ENVIRONMENTAL ANALYSIS

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
- Taxeation 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 includes the population growth/ decline, age structure of population, ethnic composition of population, occupational pattern, migration, factors related to family, lifestyle etc.

d. ***Technological factors:*** Technologyis 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**.**



CHECK YOUR PROGRESS

Q 7: State three ways where understanding of the Business Environment will help.

a. ……..

b. ……..

c. ……..

Q 8: State some examples of legal and environmental factors

a. .....

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b. .....

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1.10 LET US SUM UP

After going through the unit we have come through the following:

- 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.
- Business may be classified in the following ways:
  - Business that produces Goods
  - Business which produces Services
  - Business that distribute Goods
  - Business that facilitate distribution of Goods
  - Business that deals in Finance and Financial Services Goods
- Business is an activity that is carried out with the intention of making financial benefits and it has the following characteristics
  - Exchange of goods and services for Income
  - Profit Motive
  - Recurring Activities
  - Risks
  - Society Oriented
- Business activity has two branches. They are as follows:
  - Industry
  - Commerce
- Industry is an activity concerned with conversion of raw materials or semi-finished goods into finished goods. Industry provides two types of goods namely *consumer goods* and *Industrial goods*.
- Commerce has been defined as “the sum total of those processes which are engaged in the removal of the hindrance of persons (trade), Place (transport and insurance), and time (warehousing) in the exchange (banking) of commodities”.
- Business Environment refers to the sum total of all individuals, institutions and other forces like governmentpolicies and regulations,

nature of the economy, socio cultural factors, demographic factors, natural factors etc. that may affect its performance. It is broadly classified into two categories, i.e. *microenvironment* and*macro environment.*

- The purpose of environmental analysis is to identify the existing and emerging threats and opportunities to help formulae appropriate strategies.
- Environmental analysis can be divided into four stages namely: *Scanning, Monitoring, Forecasting and Assessment.* The business enterprises need to understand the forces and emerging trends in different sectors of the broad environment. These could be economic environment, social environment, political and legal environment etc.



1.11 FURTHER READING

1) A. C. Fernando(2011). *Business Environment*, Pearson India, India
2) K Chidambaram, V Alagappan (1999), *Business Environment,* Vikas Publishing House, India
3) Pailwar V K (2014). *Business Environment,* PHI Learning Pvt. Ltd, New Delhi, India
4) PrabhakaranPaleri (2014). *Business Environment,* Cengage Learning, New Delhi, India



1.12 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: 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

Ans to Q No 2:

a) Primary

b) Tertiary

c) Financial

Ans to Q No 3: Trade means sale, transfer, or exchange of goods and services, through certain ancillary functions like packing, warehousing, banking, transportation, Insurance, and advertising.

Ans to Q No 4: Examples of service industries are:Banking, tourism, professional services of lawyers, doctors, dentists, management consultants etc.

Examples of manufacturing industries are:iron and steel, sugar, paper, cotton cloth, electrical appliances etc.

Ans to Q No 5: 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.

Ans to Q No 6: Business environment means all the internal and the external factors that have an impact on the business.

Ans to Q No 7: An understanding of the importance of Business Environmentwill help in the following ways:

a. Determining opportunities and threats in the environment

b. Meeting competition

c. Identifying firm's strength and weakness in light of the strengths and weaknesses

Ans to Q No 8: a. Following are some of the legal factors:

i. Regulations for safety etc.

ii. Employment regulations

iii. Regulations on trade matters

b. Some environmental factors are:

a. Geographical location and topography

b. The climate and weather

c. Waste disposal laws



1.13 MODEL QUESTIONS

Q 1: Define Business

Q 2: What is Micro Environment?

Q 3: What is Macro Environment?

Q 4: What is Trade?

Q 5: What is commerce?

Q 6: What is meant by Business Environment?

Q 7: Describe how business can be classified

Q 8: Discuss the various characteristics of Business

Q 9: Explain the various types of Industries

Q 10: Discuss the components of business

Q 11: Outline the difference between Micro Environment and Macro Environment

Q 12: Discuss how an understanding of the environmental forces will help in developing efficiency in functioning of a business enterprise.

*** ***** ***

UNIT 2: BUSINESS AND SOCIETY

UNIT STRUCTURE

2.1 Learning Objectives

2.2 Introduction

2.3 Social Environment of Business

2.4 Meaning of Social Responsibility in Business

2.5 Concept of Corporate Governance

2.6 Benefits of good Corporate Governance

2.7 Let Us Sum Up

2.8 Further Reading

2.9 Answers to Check your progress

2.10 Model Questions

2.1 LEARNING OBJECTIVES

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

- discuss the social environment of business
- learn the concept of social responsibility of business
- outline the various parties to whom the business is socially responsible
- describe the concept of corporate governance
- know the various benefits of good corporate governance

2.2 INTRODUCTION

In this unit we are going to discuss social enviornment of Business. 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 social responsibilities of business, corporate governance etc.

2.3 SOCIAL ENVIRONMENT OF BUSINESS

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 includeorganizational 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. Every society constructs its own social environment. 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. The following are some of the important social institution :

1. **Family:** Family is the primary social institution and most of the learning takes place here. Family is the basic part of society from birth of a person up to death where personal decisions of buying and selling of goods and services are affected. Many families have a culture and tradition of spending money on different things. They may have a tendency ofsticking to a particular brand, model or company. For example, a family may have a tradition of keeping big cars or theymaynot like to purchase two wheelers due to bad experience of past accidents at home. Some families may prefer only Indian brands or some may be motivated to invest more on high lifestyle products. Family traditions and culture have a deep impact on purchasing decisions of customers.
2. **Educational institutions:** Educational institutions are also an important part of societies. They provide good knowledge, education, awareness and guide thinking of students regarding what to buy or not to buy. Suppose in an educational institution, if students are continually informed about the harmful effects of cigarette smoking and are punished for smoking, the demand for cigarettes will come down. The educational institution will be able to inculcate a good habit among the students.
3. **Religion:** Like family and education institutions, religion also affects the business socially. Religion lays guidelines which are followed by people. Different religions have different principles and belief in name of which people sacrifice and adopt different eating, drinking and clothing habits. Businessman must analyze the food preferences and religious practices of the targeted audience and then only goods should be produced.
4. **Influence of social media:** 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.

2.4 MEANING OF SOCIAL RESPONSIBILITY IN BUSINESS

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) isone 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 off 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. (True/False)

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

c. CSR stands for corporate social responsiveness. (True/False)

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

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 andorganizations 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.

2.5 CONCEPT 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.

2.6 BENEFITS OF GOOD CORPORATE GOVERNANCE

The benefits of good corporate governance arelisted below-

a. Good corporate governance ensures corporate success and economic growth. Because it complies with the requirements of law. Unlawful practices havr long term negative consequences.
b. 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.
c. It lowers the capital cost. Because of good practices it can attract easy investment and thereby reduces the cost of capital.
d. It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organization.
e. Good corporate governance also minimizes wastages, corruption, risks and mismanagement.

f. 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 4: 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 5: State two benefits of Corporate Governance

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2.7 LET US SUM UP

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.



2.8 FURTHER READING

1) A. C. Fernando (2011). *Business Environment*, Pearson India, India
2) K Chidambaram, V Alagappan (1999),*Business Environment,*Vikas Publishing House, India
3) Pailwar V K (2014). *Business Environment,*PHI Learning Pvt. Ltd, New Delhi, India
4) Prabhakaran Paleri (2014). *Business Environment,*Cengage Learning, New Delhi, India



2.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: a. False b. False
c. False d. True

Ans to Q No 2: 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 Q No 3: Business houses need to discharge responsibility towards its shareholders as 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 Q No 4: a. Social b. Capital

Ans to Q No 5: 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.



2.10 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 3: INDUSTRIAL POLICIES

UNIT STRUCTURE

3.1 Learning Objectives

3.2 Introduction

3.3 Meaning of Developed Economy and Mixed Economic System

3.4 Concept of Economic Reforms

3.5 Evolution of Industrial Policy in India

3.6 Industrial Policy Resolution in India up to 1991

- 3.6.1 Industrial Policy Resolution, 1948
- 3.6.2 Industrial Policy Resolution, 1956
- 3.6.3 Industrial Policy Resolution 1977
- 3.6.4 Industrial Policy resolution, 1980

3.7 New Industrial Policy 1991

3.8 Evoluation of the New Industrial Policy 1991

3.9 Privatization

3.10 Disinvestment

- 3.10.1 Objectives of disinvestment in India

3.11 Insurance Regulatory and Development Authority (IRDA)

3.12 Let Us Sum Up

3.13 Further Reading

3.14 Answers to Check your Progress

3.15 Model Questions

3.1 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
- explain the features of New Industrial Policy 1991

- describe the meaning of Privatization and its advantages and disadvantages
- describe the meaning of disinvestment and its objectives
- explain about the Insurance Regulatory and Development Authority (IRDA)

3.2 INTRODUCTION

In this unit we are going to discuss the meaning and the concept of developed and mixed economic system. 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 also discuss the industrial policies, their evolution and the new changes.

3.3 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 for Giant Industries
- Government Control and Regulation of Private Sector
- Economic Planning
- Control of Monopoly
- Reduction of Economic Inequalities

3.4 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:

- To do away with the necessity of having a license for most of the industries
- Freedom in determining the scale of business activities
- Removing restrictions for the movement of goods and services from one place to another
- Freedom to fix the prices of goods and services
- Reduction in the rate of taxes
- Freedom from unnecessary control over economy
- Simplifying import-export procedure
- 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 technique in all the countries.

3.5 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.

3.6 INDUSTRIAL POLICY RESOLUTIONS IN INDIA UPTO 1991

3.6.1 Industrial Policy Resolution, 1948

The Industrial Policy Resolution of 1948 contemplated 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 govt. 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.

3.6.2 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. 17 industries were included in this category. This included heavy and strategic industries such as defence equipment; Atomic energy; Iron and Steel; Heavy castings and forgoing of iron and steel; Heavy plant and machinery required for iron and steel production for mining 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.

3.6.3 Industrial Policy Resolution 1977

This resolution was adopted by the Janata Government as result of change in government at center. Consequently, it 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.

3.6.4 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 federation, 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.

3.7 NEW INDUSTRIAL POLICY 1991

The Congress government led by Sri Narashimha Rao announced the new economic policy and the new industrial policy in conformity 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 removed the threshold limit in assets in respect of MRTP companies.

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 population, 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?

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Q 2: What are the three industries reserved for Government after the 1991 Industrial Policy?

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3.8 EVOLUATION OF THE NEW INDUSTRIAL POLICY 1991

The New Industrial Policy 1991 aimedthat 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.

3.9 PRIVATIZATION

We have already discussed the meaning of privatisation in the above section 3.4. 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 canno longer purchase a stake in that company.

One of the main arguments for the privatization of publicly owned operations is the envisaged 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 favour 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 privatizationsociety will not benefit muchas 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.

3.10 DISINVESTMENT

Disinvestment is defined in the following way:

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.

3.10.1 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.

3.11 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 YOU PROGRESS

Q 3: State two objectives of disinvestment

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Q 4: State two functions of IRDA.

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3.12 LET US SUM UP

The Industrial Policy Resolutions were adopted in Indiafor 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. However, with the adoption of measures for economic reforms in 1991, the LPG scenario emerged. Privatization was initiated. Privatization means the transfer of ownership of property or businesses from a government to a privately owned entity. Disinvestments were also made. Disinvestment means the action of an organization or government selling or liquidating an asset or subsidiary. In the new scenario, 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



3.13 FURTHER READING

1) Misra and Puri (2015), *Indian Economy*, Himalaya Publishing House.

2) Misra and Puri (2013), *Economic Environment of Business* , Himalaya Publishing House.



3.14 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q.1:

Promotion of cottage and small industries was the main thrust of the Industrial Policy 1977.

Ans to Q.2:

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

a. Atomic industries

b. Mining of atomic minerals

c. Railway transport

Ans to Q.3:

Two objectives of disinvestment are as follows:

a. To reduce the financial burden on the Government

b. To improve public finances

Ans to Q.4:

Two functions of IRDA are as follows:

a. Registering and regulating insurance companies

b. Protecting policyholders' interests



3.15 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 4: NATURAL AND TECHNOLOGICAL ENVIRONMENT

UNIT STRUCTURE

4.1 Learning Objectives

4.2 Introduction

4.3 Natural Environment

4.3.1 Emerging Trends in Natural environment

4.4 Technological Environment

4.4.1 Emerging Trends in Technological environment

4.5 Innovation

4.6 Technology and Competitive Advantage

4.7 IT and Business Environment.

4.8 Let Us Sum Up

4.9 Further Reading

4.10 Answers to check your progress

4.11 Model Questions

4.1 LEARNING OBJECTIVES

After going through this unit, you will be able to

- Understand the trends in respect of natural environment
- 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

4.2 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 naturaland 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.

4.3 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. 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 Unit 14, the 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 fromvery poor air quality. A person cooking over an open wood or kerosene fire inhales the equivalent of two packs of cigarettes a day.

4.3.1 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 donot 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 centresetc. 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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4.4 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 Flipkart, Paytm etc. The way the banks are making use of services like ATMs, 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 likecell 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.

4.4.1 Emerging Trends in Technological 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 case studies in Unit 14, 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.

4.5 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 asinvention.

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.

4.6 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, My Taxi 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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4.7 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. **Relarionship 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. **TechnologyTransfer :** 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 a 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



4.8 LET US SUM UP

The natural environment and the use of technology have a very important role in the functioning of business enterprises. The natural environment has changed a lot. We are talking about global warming. The natural resources like coal, oil, ground water etc. are fast depleting. The environmental protection is regarded as a matter of utmost concern. The business enterprises have to be consider the matters related with environmental protection and prevention of environmental degradation while framing their business strategies

Technological developments have been revolutionizing the business scene. The advances in technology have facilitated a great deal of changes in the modus operandi of business. The information technology has vastly

transformed the marketing, financial markets and the internal processes of doing business.



4.9 FURTHER READING

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

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



4.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: 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 Q No 2: 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 Q No 3: *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 Q No 4: 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



4.11 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 5: SMALL ENTERPRISES AND VILLAGE INDUSTRIES

UNIT STRUCTURE

5.1 Learning Objectives

5.2 Introduction

5.3 Definition of small enterprise

5.4 Characteristics of small enterprises

5.5 Relationship between small and large enterprises

5.6 Objectives and scope of small enterprises

5.7 Role of small enterprises in economic development

5.8 Problems of small scale units

5.9 Let Us Sum Up

5.10 Further Reading

5.11 Answers to Check Your Progress

5.12 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
- explain the relationship between small and large scale units
- state the objectives and scope of small enterprises
- describe the role small-scale enterprises play 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 small enterprises. 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.

5.3 DEFINITION OF SMALL ENTERPRISES

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.

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. **Labour Intensified:** Small industries are fairly labour intensive with comparatively smaller capital investments than the larger units.
7. **Balanced Regional Development:** Small units are dispersed to 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.

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*** of the large units and enjoy the advantage of protected market for their products. Then, the development of such small units remains assured.



Tutelage : Attention and management implying responsibility for safety.

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 enterprise. 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 OBJECTIVES AND SCOPE OF SMALL ENTERPRISES

Objectives of small scale industries:

The various objectives of developing small scale 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 small enterprises in India in a more orderly manner. 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.

Scope of small scale industries:

The scope of small-scale 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 small industry development in the 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 AbidHussain 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.

The list of products as mentioned above indicates the importance of the small scale sector in India.



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 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.

c) *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.

d) *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.

e) *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.

5.8 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 were 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 5.1

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. (True/ False)

b. Small scale industry is one which has fixed capital investment in its plant and machinery upto Rs.6 crores. (True/ False)

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

d. The AbidHussain Committee deserved 12 items reserved for exclusive production in small sector. (True/ False)

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

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5.9 LET US SUM UP

In this unit, we have discussed the following:

Development of small scale industries has been given a lot of emphasis in India. Because the small 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. However, the small scale enterprises 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.



5.10 FURTHER READING

1) Francis Cherunilam (2014),*Business Environment- Text and Cases*, Himalaya Publishing House, Mumbai, Revised Edition, 2014

2) DesaiVasant (2001), *Dynamics of Entrepreneurial Development and Management*, Himalaya Publishing House.

3) Pathak, R.K. and M.C.Kalwar (2008),*Business Organisation and Entrepreneurship Development*,Abhilekh Publication and Production, Guwahati

4) Gordon E., Natarajan K. (2011), *Entrepreneurship Development*, Himalaya Publishing House



5.11 ANSWERS TO CHECK YOUR PROGRESS

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

i) 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.

ii) 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 2: Two objectives of small scale enterprise are

i) To generate immediate and large scale employment opportunities with relatively low investment.

ii) To eradicate unemployment problem from the country.

Ans to Q No 3:

(a) True (b) False

(c) True (d) True

Ans to Q No 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.



5.12 MODEL QUESTIONS

Q 1: Discuss the characteristics of small enterprises.

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

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 Corrective Measures

6.8 Let Us Sum Up

6.9 Further Reading

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:

- define industrial sickness
- state the reasons for industrial sickness
- explain the consequences of Industrial sickness
- explain the 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.

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.

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

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Q 4: 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 CORRECTIVE 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. The measures to be adopted are as follows:

1. These 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 slow 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 5: What are the consequences of Industrial sickness?

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6.8 LET US SUM UP

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. To that extent, concerted efforts by Government, RBI and all other promotional organizations are required. Training the entrepreneurs on development of the required managerial skills will also help a lot in improving the scenario.



6.9 FURTHER READING

1) Francis Cherunilam(2014*),Business Environment- Text and Cases*, Himalaya Publishing House

2) SaleemShaikh(2008), *Business Environment* Pearson Education



6.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: 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 year equal 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: 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).

Ans to Q No 4: 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 5: 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: LABOUR ENVIRONMENT

UNIT STRUCTURE

7.1 Learning Objectives

7.2 Introduction

7.3 Concept of Labour Market

7.4 Labour Legislations

- 7.4.1 Principles of Labour Legislations
- 7.4.2 Classification of Labour Legislations

7.5 Concept of Labour Welfare

7.6 Concept of Industrial Relations (IR)

7.7 Scope, Objectives and Need of Industrial Relations (IR)

- 7.7.1 Scope of IR
- 7.7.2 Objectives of IR
- 7.7.3 Need of IR

7.8 Meaning and Definition of Trade Union

7.9 Workers Participation in Management : Its meanig and definition

7.10 Levels and Forms of Workers Participation in Management

7.11 Voluntary Retirement Scheme (VRS) and Golden Handshakes

7.12 Let Us Sum Up

7.13 Further Reading

7.14 Answers to Check your Progress

7.15 Model Questions

7.1 LEARNING OBJECTIVES

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

- learn the concept of labour market
- explain principles of labour legislation
- classify labour legislations
- define labour welfare
- define industrial relations
- state the importance of Industrial Relations
- define trade union

- discuss the concept of workers' participation in management
- describe VRS and Golden Handshakes

7.2 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.

7.3 CONCEPT OF LABOUR MARKET

A labour market is the place where workers and employers interact with each other. 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.

7.4 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.

7.4.1 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 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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7.4.2 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.

7.5 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 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.

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.

7.6 CONCEPT OF INDUSTRIAL RELATIONS (IR)

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. 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.

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".

Encyclopaedia Britannica defined IR more elaborately as "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".

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 co-operation. This changing process becomes a continuous feature in industrial system and makes IR concept as dynamic and evolving one.

7.7 SCOPE, OBJECTIVES AND NEED OF INDUSTRIAL RELATIONS (IR)

7.7.1 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.

7.7.2 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 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.

7.7.3 Need of IR

Need of Industrial Relation 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 worker 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/ manager, mediator/conciliators / arbitrator, judges of labor court, tribunal etc.
- **Institution:** It includes government, employers, trade unions, union federations or associations, government bodies, labor 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 labor 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 labor welfare, social security, industrial relations, issues concerning with workers' participation in management, collective bargaining, etc.

7.8 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 thoseworkers 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 like 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.

7.9 WORKERS PARTICIPATION IN MANAGEMENT: IT'S MEANING AND DEFINITION

Meaning:

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.*

Definition:

"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 the following comprehensive definition may be given*:** It is 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.

7.10 LEVELS AND FORMS OF WORKERS PARTICIPATION IN MANAGEMENT

Levels of Workers' Participation in Management: Workers participation may exist in all levels of management; however it may vary from management to management. 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 lie 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 West 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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7.11 VOLUNTARY RETIREMENT SCHEME (VRS) AND GOLDEN HANDSHAKE

A. Voluntary Retirement Scheme (VRS)

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 and receive few or no benefits.

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 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.

B. 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: 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.



7.12 LET US SUM UP

In this unit we have discussed the following :

- A labour market is the place where workers and employers interact with each other.
- 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.
- 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
  - II. Laws related to Wages
  - III. Laws related to Working Hours, Conditions of Service and Employment

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

V. Laws related to Deprived and Disadvantaged Sections of the Society

VI. Laws related to Social Security

- 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.
- 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
- A Trade Union, is an organization of workers who have joined together to achieve goals in areas such as wages and working conditions.
- Workers Participation in Management is 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.
- A voluntary retirement scheme package 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 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.



7.13 FURTHER READING

1) B.D Singh (2009), "*Labour Laws for Managers",* Excel Books, India.

2) C.S.VenkataRatnam (2006), '*Industrial Relations'*, 5th Edition, Oxford University Press, 2006



7.14 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: 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 Q No 2: 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 Q No 3: 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 Q No 4: 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. In this case the state industrial units are run by the workers under a scheme called 'Self Management or Auto Management Scheme'.



7.14 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



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