PGCM S1 03

BUSINESS ENVIRONMENT

SEMESTER - 1

MASTER OF COMMERCE

BLOCK - 1

KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

Subject Experts

Prof. Nripendra Narayan Sarma, Maniram Dewan School of Management, KKHSOU.
Prof. U. R Dhar, Retd. Professor, Dept of Business Administration, GU.
Prof. Mukulesh Baruah,Director, Assam Institute of Management.

Course Co-ordinators : Dr. Smritishikha Choudhury, Asst. Prof., KKHSOU
Dr. Chayanika Senapati, Asst. Prof., KKHSOU

SLM Preparation Team

UNITS	CONTRIBUTORS
1-15	Professor Nripendra Narayan Sarma, KKHSOU

Editorial Team

Content Editor : Professor Nayan Barua, Gauhati University
Language Editor : Prof. Robin Goswami, Retd Prof, Cotton College
Formating : Dr. Chayanika Senapati and Dr. Smritishikha Choudhury, KKHSOU

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Headquarters: Patgaon, Rani Gate, Guwahati-781017
City Office: Housefed Complex, Dispur, Guwahati-781006; Web: www.kkhsou.in

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MASTER OF COMMERCE
BUSINESS ENVIRONMENT
Block 1
DETAILED SYLLABUS

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

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

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

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

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

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

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

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

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

Definition of small enterprise and village industries, characteristics of small enterprises, relationship between small and large enterprises, khadi and village industries, state industrial policies, role of small enterprises in economic development, problems of small scale units

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

Meaning of Industrial Sickness, warning Signals of industrial sickness, causes of industrial sickness, factors responsible for sickness of small business, consequences of industrial sickness, preventive and curative measures

Unit 7: Patents and Trademarks **Page 95-105**

Meaning and definition of Patents, Patent protection in India, meaning and definition of Trade Marks, objectives of Trade Marks Act 1999, registration of Trade Marks, prevention of the use of fraudulent Trade Marks, Patents, Trademarks and international business

COURSE INTRODUCTION

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

Block 1 deals with the concept and scope of business environment, composition of business environment, social responsibility of business, patents, trademarks etc.

Block 2 concentrates on labour environment, technological environment, economic planning and development, globalisation of business, multinational corporations etc.

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.

BLOCK INTRODUCTION

This is the first block of the course 'Business Environment'. This block will introduce you to the concept of business environment as well as the ingredients of business environment. The block covers units related to social responsibilities of business, industrial policies, village and small- scale industries, patents and trademarks.

The block comprises of 7 units:

Unit 1: Introduction to Business Environment

Unit 2: Composition and Scope of Business Environment

Unit 3: Social Responsibilities of Business and Corporate Governance

Unit 4: Industrial Policies

Unit 5: Village and Small Industries

Unit 6: Industrial Sickness

Unit 7: Patents and Trademark

UNIT 1: INTRODUCTION TO BUSINESS ENVIRONMENT

UNIT STRUCTURE

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

1.1 LEARNING OBJECTIVES

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

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

1.2 INTRODUCTION

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

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

1.3 NATURE, SCOPE AND OBJECTIVES OF BUSINESS

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

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

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

1.4 BUSINESS SYSTEM

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

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

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

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

1.5 CHARACTERISTICS OF BUSINESS

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

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

1.6 CLASSIFICATION OF BUSINESS

Business may be classified in the following ways:

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

Let us discuss it in detail:

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

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

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

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

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

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

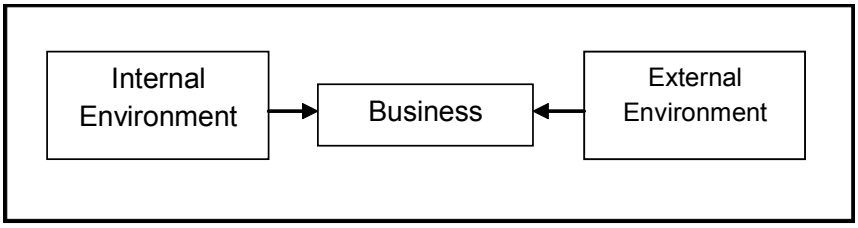
1.7 MEANING OF BUSINESS ENVIRONMENT

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

1.8 TYPES OF BUSINESS ENVIRONMENT

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

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



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

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



CHECK YOUR PROGRESS

Q.1 : Define Business Environment.

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A. Micro Environment :

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

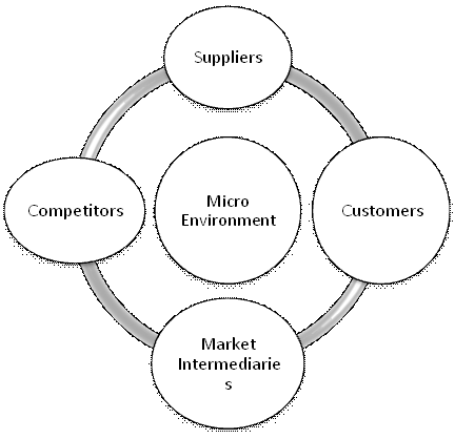


Fig 1.1: Constituents of Micro Environment

Micro environment refers to the environment which is in direct contact with the business organization and can affect the routine activities of business straight away. It is associated with a small area in which the firm functions. Micro environment deals suppliers, competitors, marketing intermediaries (like dealers, wholesalers etc.), customers, pressure groups and the general public.

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

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

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

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

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

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

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

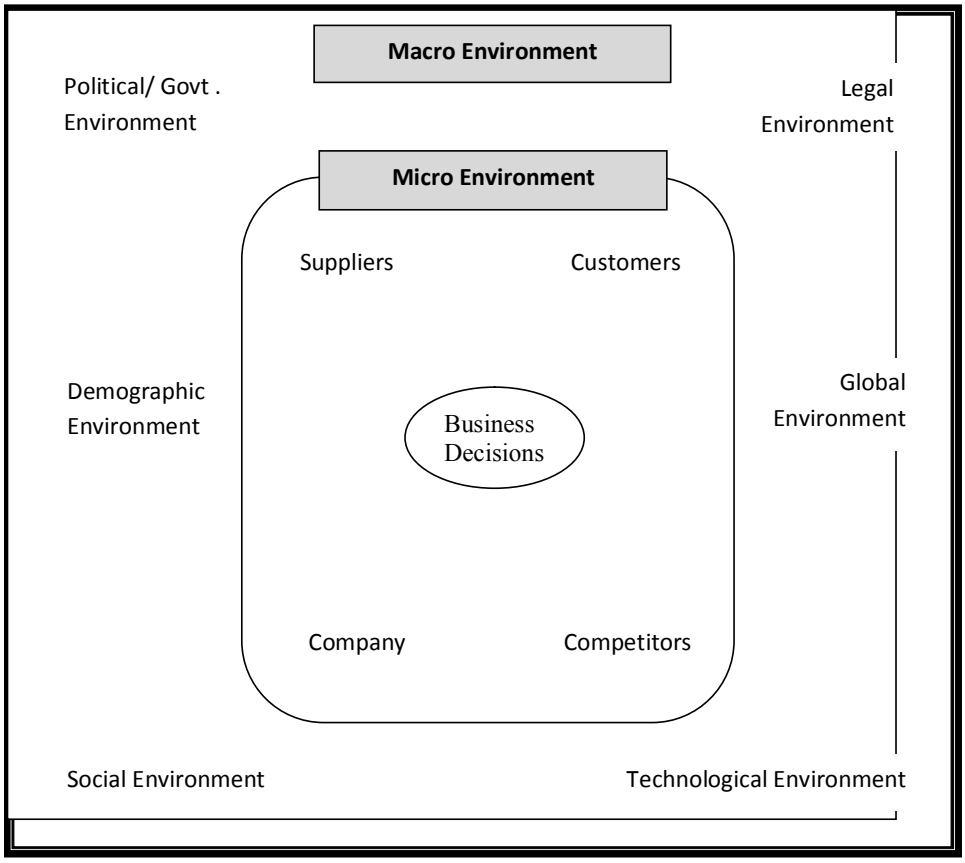
decision to liberalize trade to integrate it with the global economy has resulted into major impact on the Indian Economy. Other factors associated include the taxation policies, foreign exchange policies, trade policies and regulations to promote export, policies to boost up domestic production to increase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

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

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

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

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





CHECK YOUR PROGRESS

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

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1.9 ENVIRONMENTAL ANALYSIS AND FORECASTING

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

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

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

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

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

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

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

P: Political factors

E: Economic factors

S: Social factors

T: Technological factors

L: Legal factors

E: Environmental factor

Let us discuss about the factors in detail:

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

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

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

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

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

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

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

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

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

The following are some of the legal factors:

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

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

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

The following are the benefits of environmental analysis:

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

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

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

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

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



1.10 LET US SUM UP

In this unit we have discussed the following aspects–

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

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

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



1.11 FURTHER READING

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



1.12 ANSWERS TO CHECK YOUR PROGRESS

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

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

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



1.13 MODEL QUESTIONS

Q.1. What is Micro Environment?

Q.2. What is Macro Environment?

Q.3. What is meant by Business Environment?

Q.4. Describe how business can be classified.

Q.5. Discuss the various characteristics of Business

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

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

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UNIT 2: COMPOSITION AND SCOPE OF BUSINESS ENVIRONMENT

UNIT STRUCTURE

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

2.1 LEARNING OBJECTIVES

After going through this unit, you will be able to

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

2.2 INTRODUCTION

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

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

2.3 EXTERNAL ENVIRONMENT

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

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

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

2.4 ECONOMIC ENVIRONMENT

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

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

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

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

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



CHECK YOUR PROGRESS

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

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2.5 NATURAL ENVIRONMENT

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

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

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

2.6 POLITICAL AND LEGAL ENVIRONMENT

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

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

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

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

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

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



CHECK YOUR PROGRESS

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

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2.7 SOCIO-CULTURAL ENVIRONMENT

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

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

2.8 TECHNOLOGICAL ENVIRONMENT

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

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

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

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

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

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

2.9 DEMOGRAPHIC ENVIRONMENT

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

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

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

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

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



2.10 LET US SUM UP

The following aspects have been discussed in this unit–

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



2.11 FURTHER READING

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



2.12 ANSWERS TO CHECK YOUR PROGRESS

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

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

2.13 MODEL QUESTIONS

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

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

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

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

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

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

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

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UNIT 3: SOCIAL RESPONSIBILITY OF BUSINESS AND CORPORATE GOVERNANCE

UNIT STRUCTURE

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

3.1 LEARNING OBJECTIVES

After going through this unit, you will be able to

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

3.2 INTRODUCTION

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

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

3.3 SOCIAL ORIENTATION OF BUSINESS

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

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

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

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

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

3.4 FACTORS AFFECTING SOCIAL ORIENTATION

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

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

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

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

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

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

3.5 CORPORATE SOCIAL RESPONSIBILITY (CSR)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



CHECK YOUR PROGRESS

Q.1 : State true or false

a. Changes indicate risks for the business enterprises.

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

c. CSR stands for corporate social responsiveness.

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

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

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

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

3.6 SOCIAL AUDIT

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

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

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

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

3.7 MEANING OF CORPORATE GOVERNANCE

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

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

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

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

3.8 IMPORTANCE OF CORPORATE GOVERNANCE

The benefits of good corporate governance are listed below-

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

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



CHECK YOUR PROGRESS

Q.1 : Fill up the blank

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

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

Q.4: State two benefits of corporate governance

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3.9 REGULATION AND VOLUNTARY ACTION

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

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

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

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

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

3.10 LEGAL ENVIRONMENT OF CORPORATE GOVERNANCE IN INDIA

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

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

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

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



3.11 LET US SUM UP

The following aspects have been discussed in this unit–

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



3.12 FURTHER READING

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

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

3.13 ANSWERS TO CHECK YOUR PROGRESS

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

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

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

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

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

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

Ans to Q4: a. social

b. capital

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

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

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



3.14 MODEL QUESTIONS

Q.1. Define social environment of a business.

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

Q.3. What is meant by corporate governance?

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

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

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

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UNIT 4: INDUSTRIAL POLICIES

UNIT STRUCTURE

4.1 Learning Objectives

4.2 Introduction

4.3 Meaning of Developed Economy and Mixed Economic System

4.4 Concept of Economic Reforms

4.5 Evolution of Industrial Policy in India

4.6 Industrial Policy Resolution up to 1991

4.7 New Industrial Policy 1991

4.8 Evaluation of the New Industrial Policy 1991

4.9 Meaning of Privatization

4.10 Meaning of Disinvestment

4.11 Insurance Regulatory and Development Authority (IRDA)

4.12 Let Us Sum Up

4.13 Answers to Check Your Progress

4.14 Further Reading

4.15 Model Questions

4.1 LEARNING OBJECTIVES

After going through this unit you will be able to

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

4.2 INTRODUCTION

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

4.3 MEANING OF DEVELOPED ECONOMY AND MIXED ECONOMIC SYSTEM

Meaning of Developed Economy:

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

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

Mixed Economic System:

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

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

4.4 CONCEPT OF ECONOMIC REFORMS

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

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

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

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

Privatisation: Privatization means the following:

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

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

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

4.5 EVOLUTION OF INDUSTRIAL POLICY IN INDIA

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

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

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

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

4.6 INDUSTRIAL POLICY RESOLUTIONS IN INDIA UPTO 1991

4.6.1 Industrial Policy Resolution, 1948

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

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

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

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

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

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

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

4.6.2 Industrial Policy Resolution, 1956

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

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

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

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

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

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

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

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

4.6.3 Industrial Policy Resolution 1977

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

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

4.6.4 Industrial Policy resolution, 1980

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

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

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

4.7 NEW INDUSTRIAL POLICY, 1991

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

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

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

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

g. to achieve international competitiveness.

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

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

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

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

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

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

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

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

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



CHECK YOUR PROGRESS

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

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

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

4.8 EVALUATION OF THE NEW INDUSTRIAL POLICY 1991

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

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

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

4.9 PRIVATIZATION

Privatization means the following:

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

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

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

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

Advantages of privatization:

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

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

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

Disadvantages of privatization:

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

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

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

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

4.10 DISINVESTMENT

Disinvestment means the following:

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

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

Disinvestment takes place because:

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

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

Objectives of Disinvestment in India

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

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

The following were identified as the main objectives of disinvestment:

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

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

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

4.11 INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY (IRDA)

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

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

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

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

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

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

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



CHECK YOUR PROGRESS

Q.6 : State two objectives of disinvestment

Q.7 : State two functions of IRDA.



4.12 LET US SUM UP

In this unit we have discussed the following aspects–

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

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

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



4.13 FURTHER READING

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

4.14 ANSWERS TO CHECK YOUR PROGRESS

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

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

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

i. Atomic industries

ii. Mining of atomic minerals

iii. Railway transport

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

i. To reduce the financial burden on the Government

ii. To improve public finances

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

i. Registering and regulating insurance companies

ii. Protecting policyholders' interests



4.15 MODEL QUESTIONS

Q.1. Explain the following terms:

a. Developed economy

b. Economic Reforms

c. Mixed economy

d. Privatization

e. Disinvestment

f. IRDA

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

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

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

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

Q.6. What are the functions of IRDA?

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UNIT 5: VILLAGE AND SMALL INDUSTRIES

UNIT STRUCTURE

5.1 Learning Objectives

5.2 Introduction

5.3 Definition of Small Enterprise and Village Industries

5.4 Characteristics of Small Enterprises

5.5 Relationship between Small and Large Enterprises

5.6 Khadi and Village Industries

5.7 State Industrial Policies

5.8 Role of Small Enterprises in Economic Development

5.9 Problems of Small Scale Units

5.10 Let Us Sum Up

5.11 Further Readings

5.12 Answers to Check Your Progress

5.13 Model Questions

5.1 LEARNING OBJECTIVES

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

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

5.2 INTRODUCTION

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

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

5.3 DEFINITION OF SMALL ENTERPRISES AND VILLAGE INDUSTRIES

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

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

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

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

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

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

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

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

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

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

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

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

5.4 CHARACTERISTICS OF SMALL ENTERPRISES

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

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

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

5.5 RELATIONSHIP BETWEEN SMALL AND LARGE SCALE UNITS

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

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

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

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

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

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

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

5.6 KHADI AND VILLAGE INDUSTRIES

"KHADIISAHARBINGEROFPEACEANDANICONOFOURFREEDOMANDNATIONAL EXISTENCE"

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

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

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

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

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

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

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

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

Mineral Based Industry : Pottery and Lime

Agro Based & Food Processing Industry (ABFPI)

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

Polymer & Chemical Based Industry (PCBI)

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

Forest Based Industry (FBI)

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

Hand Made Paper & Fibre Industry (HMPFI)

1. Hand Made Paper Industry
2. Fibre Industry

Rural Engineering & Bio Technology Industry (REBTI)

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

Service Industry : Co-ordination



CHECK YOUR PROGRESS

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

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Q 2: Mention two objectives of small scale enterprises.

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5.7 STATE INDUSTRIAL POLICIES

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

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

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

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

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

5.8 ROLE OF SMALL ENTERPRISES IN ECONOMIC DEVELOPMENT

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

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

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

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

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

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

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

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

5.9 PROBLEMS OF SMALL SCALE INDUSTRIES

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

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

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

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

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

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

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

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



ACTIVITY 1.1

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

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CHECK YOUR PROGRESS

Q.3 : State True/ False :

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

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

.....

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

.....

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

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

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5.10 LET US SUM UP

In this unit we have discussed the following aspects–

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



5.11 FURTHER READING

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



5.12 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: Two characteristics of small scale enterprises are

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

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

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

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

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

5.13 MODEL QUESTIONS

Q 1: Discuss the characteristics of small enterprises.

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

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

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

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UNIT 6: INDUSTRIAL SICKNESS

UNIT STRUCTURE

6.1 Learning Objectives

6.2 Introduction

6.3 Meaning of Industrial Sickness

6.4 Warning Signals of Industrial Sickness

6.5 Causes of Industrial Sickness

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

6.6 Consequences of Industrial Sickness

6.7 Preventive and Curative Measures

6.8 Let Us Sum Up

6.9 Further Readings

6.10 Answers to Check Your Progress

6.11 Model Questions

6.1 LEARNING OBJECTIVES

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

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

6.2 INTRODUCTION

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

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

6.3 MEANING OF INDUSTRIAL SICKNESS

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

6.4 WARNING SIGNALS OF INDUSTRIAL SICKNESS

Given below are some of the warnings of Industrial Sickness:

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

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

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

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

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

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

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



CHECK YOUR PROGRESS

Q.1 : What is meant by Industrial Sickness?

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6.5 CAUSES OF INDUSTRIAL SICKNESS

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

(a) External Causes and (b) Internal Causes

6.5.1 External Causes of Industrial Sickness

External causes include:

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

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

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

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

6.5.2 Internal Causes of Industrial Sickness

Following are the internal causes for industrial sickness

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

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

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

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

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

6.5.3 Factors responsible for sickness of Small Business

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

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

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

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



CHECK YOUR PROGRESS

Q 2 : State two causes of industrial sickness.

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

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

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6.6 CONSEQUENCES OF INDUSTRIAL SICKNESS

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

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

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

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

6.7 PREVENTIVE AND CURATIVE MEASURES

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

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

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

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

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

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

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



CHECK YOUR PROGRESS

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

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6.8 LET US SUM UP

In this unit we have discussed the following aspects–

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

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



6.9 FURTHER READING

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



6.10 ANSWERS TO CHECK YOUR PROGRESS

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

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

i. Easy approval of projects without looking for the details

ii. Underutilization of capacity by the enterprises

Ans to Q No 3:

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

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

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

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



6.11 MODEL QUESTIONS

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

Q 2: Explain the warning signals of Industrial Sickness.

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

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

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UNIT 7: PATENTS AND TRADEMARKS

UNIT STRUCTURE

7.1 Learning Objectives

7.2 Introduction

7.3 Meaning and Definition of Patents

7.4 Patent Protection in India

7.5 Meaning and Definition of Trade Marks

7.6 Objectives of Trade Marks Act, 1999

7.7 Registration of Trade Marks

7.8 Prevention of the Use of Fraudulent Trade Marks

7.9 Patents, Trademarks and International Business

7.10 Let Us Sum Up

7.11 Answer to Check Your Progress

7.12 Further Reading

7.13 Model Questions

7.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

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

7.2 INTRODUCTION

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

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

7.3 MEANING AND DEFINITION OF PATENTS

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

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

i. It has to be new

ii. It has to be useful to the society

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

7.4 PATENT PROTECTION IN INDIA

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

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

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

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

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

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

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



CHECK YOUR PROGRESS

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

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7.5 MEANING AND DEFINITION OF TRADE MARKS

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

i. Distinctive instead of descriptive,

ii. Affixed to the item sold, and

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

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

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

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

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

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



CHECK YOUR PROGRESS

Q.2 : Define Brand.

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

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7.6 OBJECTIVES OF TRADE MARK ACT, 1999

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

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

ii. The prevention and use of fraudulent trade marks

7.7 REGISTRATION OF TRADE MARKS

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

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

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

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

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



CHECK YOUR PROGRESS

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

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7.8 PREVENTION OF USE OF FRADULENT TRADE MARKS

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

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

False trade description

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

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

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

Falsifying a trade mark

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

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

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

Falsely applying for trade marks

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

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

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

7.9 PATENTS, TRADE MARKS AND INTERNATIONAL BUSINESS

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

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

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

i. Copyright and related aspects

ii. Trade Mark

iii. Geographical Indications

iv. Industrial Designs

v. Patents

vi. Layout Designs (topographies) of integrated circuits

vii. Undisclosed information including trade secrets

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



CHECK YOUR PROGRESS

Q.5 : Define IPR.

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7.10 LET US SUM UP

The following aspects have been discussed in this unit–

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



7.11 FURTHER READING

1. Cherunilam Francis. International Business- Text and Cases (Fifth Edition). PHI Learning Private Limited, New Delhi. (2010)
2. Cornish.W, Llewelyn. D and Pain. T. Intellectual Property- Patents, Copyright, Trade Marks and Allied Rights (8th Edition). JBA Publishers, New Delhi. (2013)
3. Ahuja. V.K. Intellectual Property Rights in India (2nd Edition). JBA Publishers, New Delhi. (2015)



7.12 ANSWERS TO CHECK YOUR PROGRESS

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

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

Answer to Q2

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

Answer to Q3

The characteristics of a registered trademark are as follows.

a) It is distinctive instead of descriptive,
b) It is affixed to the item sold, and
c) It is registered with the appropriate authority to obtain legal ownership and protection rights.
d) It needs to be renewed after a fixed period of time.

Answer to Q4

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

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

b) The prevention and use of fraudulent trade marks

Answer to Q5

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

7.13 MODEL QUESTIONS

Q 1: What are Trade Marks?

Q 2: What is a Patent?

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



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

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1) Parameswaram, R. (2010), *'Computer Applications in Business'*. S. Chand & Company.

2) Rajaraman, V. (2013), *'Fundamentals of computer',* Practice Hall India Learning Private Ltd.

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