Dr. Babasaheb Ambedkar Open University

(Established by Government of Gujarat)

BAOU Education for All

BBA

SEMESTER - 3

BBAR24301

Business Environment

Message for the Students

Dr. Babasaheb Ambedkar Open (University is the only state Open University, established by the Government of Gujarat by the Act No. 14 of 1994 passed by the Gujarat State Legislature; in the memory of the creator of Indian Constitution and Bharat Ratna Dr. Babasaheb Ambedkar. We Stand at the seventh position in terms of establishment of the Open Universities in the country. The University provides as many as 54 courses including various Certificate, Diploma, UG, PG as well as Doctoral to strengthen Higher Education across the state.

On the occasion of the birth anniversary of Babasaheb Ambedkar, the Gujarat government secured a quiet place with the latest convenience for University, and created a building with all the modern amenities named 'Jyotirmay' Parisar. The Board of Management of the University has greatly contributed to the making of the University and will continue to this by all the means.

Education is the perceived capital investment. Education can contribute more to improving the quality of the people. Here I remember the educational philosophy laid down by Shri Swami Vivekananda:

> ***"We want the education by which the character is formed, strength of mind is Increased, the intellect is expand and by which one can stand on one's own feet".***

In order to provide students with qualitative, skill and life oriented education at their threshold. Dr. Babaasaheb Ambedkar Open University is dedicated to this very manifestation of education. The university is incessantly working to provide higher education to the wider mass across the state of Gujarat and prepare them to face day to day challenges and lead their lives with all the capacity for the upliftment of the society in general and the nation in particular.

The university following the core motto 'स्वाध्यायः परमं तपः does believe in offering enriched curriculum to the student. The university has come up with lucid material for the better understanding of the students in their concerned subject. With this, the university has widened scope for those students who are not able to continue with their education in regular/conventional mode. In every subject a dedicated term for Self Learning Material comprising of Programme advisory committee members, content writers and content and language reviewers has been formed to cater the needs of the students.

Matching with the pace of the digital world, the university has its own digital platform Omkar-e to provide education through ICT. Very soon, the University going to offer new online Certificate and Diploma programme on various subjects like Yoga, Naturopathy, and Indian Classical Dance etc. would be available as elective also.

With all these efforts, Dr. Babasaheb Ambedkar Open University is in the process of being core centre of Knowledge and Education and we invite you to join hands to this pious *Yajna* and bring the dreams of Dr. Babasaheb Ambedkar of Harmonious Society come true.

Prof. Ami Upadhyay
Vice Chancellor,
Dr. Babasaheb Ambedkar Open University,
Ahmedabad.

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UNIT 1

BUSINESS ENVIRONMENT – AN INTRODUCTION

STRUCTURE

OVERVIEW

Every business organisation has to interact and transact with its environment. Hence, the business environment has a direct relation with the business organisation. Obviously, the effectiveness of interaction of an enterprise with its environment primarily determines the success or failure of a business. The environment imposes several constraints on an enterprise and has considerable impact and influence on the scope and direction of its activities. The enterprise, on the other hand, has very little control over its environment. The basic job of the enterprise, therefore, is to identify with the environment in which it operates, and to formulate its policies in accordance with the forces which operate in its environment.

LEARNING OBJECTIVES

After studying this unit, you will be able to;

- define Business Environment

- explain the Nature of Business Environment
- explain the Objectives of Business Environment
- describe the significance and importance of business environment.

1.1 INTRODUCTION

Environment, in its literal sense, refers to the surroundings, influences, and conditions in which someone or anything exists. Any organisation's environment can be defined as "the totality of all circumstances, occurrences, and influences that surround and have an impact on it." The fact that the business environment is complicated, dynamic, diverse, and has a broad impact causes it to exhibit a variety of characteristics. Due to all of these factors, breaking down the environment into its internal and external components helps us better understand it. Thus, each business has a unique set of internal elements and encounters a unique set of external forces.

The life and success of an individual depend on his innate capability to cope with the environment, including physiological factors, traits, and skills, the survival and success of a business firm depend on its resources, including physical resources, financial resources, skills, and adaptability to the environment.

1.2 DEFINITION

Bayard – O. Wheeler defines that the total of all things external to firms and industries that affect the functioning of the organisation is called Business Environment. Arther Weimer says that the business environment encompasses the 'Climate' or set of conditions, economic, social, political or institutional in which business operations are conducted and organized.

Marry, M.Richman and MelvgnCoopen, feel that "Environmental factors or constraints", are largely if not totally, external and beyond the control of the individual enterprise and their managements." "These are essentially the givers" within which firms and their managements must operate in a specific country and they vary often greatly, from country to country".

William F. Glueck and Lawrence R. Jauch wrote that the environment includes factors outside the firm which can lead to opportunities for or threats to the firm. Although, there are many factors, the most important of the factors are socio – economic, technological, supplies, competition and government.

David Keith defines the Environment of business as "the aggregate of all conditions, events and influences that surround and affect it"

1.3 NATURE OF BUSINESS ENVIRONMENT

Business Environment is characterized by the following features

i) Aggregative: Business environments are the totality of all the external forces which influence the working and decision – making of an enterprise.

ii) Inter-related: Different elements of business environment are closely interrelated and interdependent. A change in one element affects the other elements. Economic environment influences the non-economic environment which in turn affects the economic conditions. For example, economic liberalisation in India since 1991 has opened up new opportunities for private sector and foreign entrepreneurs.

iii) Relative: Business environment is a relative concept. It differs from country to country and even region to region. Capitalist economics like those of USA and UK have a different kind of environment than communist economies. The nature of economic system in a country affects the environment of business.

iv) Inter-temporal: Business environment is also an inter-temporal concept as it changes over time. For example, business environment in India today is much different from that prevailing before 1991. In the short run business environment may remain static. But in the long run, it does change.

v) Uncertain: Business environment is largely uncertain because it is very difficult to forecast the future environment. When the environment is volatile. i.e., changes very fast, uncertainty increases.

vi) Contextual: Business environment provides the macro framework within which the business firm (a micro unit) operates; the environmental forces are largely given within which an individual enterprise and its management must function.

1.4 OBJECTIVES OF BUSINESS ENVIRONMENT

i) Identify Business Opportunities: The business environment helps the business to find opportunities in the market. Businesses must look for new opportunities when the market and consumer trends, technological advancements, and other factors change.

ii) Improving Performance: Sales and profit are influenced by the business environment. Any business' primary goal is to earn a profit. Profit increases when sales increase. A higher profit indicates improved performance.

iii) Basis of Decisions: The business environment provides information about inside and outside of the organisation. The information related to change in culture, fashion, trends, customer purchasing power, etc., becomes the basis of the decision of any organisation.

iv) Survive in the Business: Survive in the market is very difficult at the time of competition. The business environment helps the business to find out information about the internal and external environment which facilitates the business can makegood decisions to survive in the market.

v) Making of Policies: The business makes policy according to the market conditions. The market condition can find out by analyzing the environment of the business. This is how the business environment helps in the making policies of the organisation.

vi) Assistance in Planning: Planning is the fundamental management function, which involves deciding beforehand, what is to be done, when is it to be done, how it is to be done, and who is going to do it. The business environment provides enough information to make a plan for the future.

1.5 SIGNIFICANCE OF BUSINESS ENVIRONMENT

It is very important for business firms to understand their environment and changes occurring in it. Business enterprises which know their environment and are ready to adapt to environmental changes would be successful. On the other hand, firms which fail to adapt to their environment are unlikely to survive in the long run, For example. some Indian firms suffered considerably because they failed to appreciate the tightening regulations against environmental pollution, Knowledge of environmental changes is very helpful in the formulation and implementation of business plans.

Some of the direct benefits of understanding the environment are given below:

i) First Mover Advantage: Awareness of environment helps an enterprise to take advantage of early opportunities instead of losing them to competitors. For example, Maruti Udyog became the leader in small car market because it was the first to recognise the need for small car on account of rising petroleum prices and a large middle class.

ii) Early Warning Signal: Environmental awareness serves as an early warning signal. It makes a firm aware of the impending threat or crisis so that the firm can take timely action to minimize the adverse effects.

iii) Customer Focus: Environmental understanding makes the management sensitive to the changing needs and expectations of consumers. For example, Hindustan Lever and several other FMCG companies launched small sachets of shampoo and other products realizing the wishes of customers. This move helped the firms to increase sales.

iv) Strategy Formulation: Environmental monitoring provides relevant information about the business environment. Such information serves as the basis for strategy making. For example, ITC realised that there is a vast scope for growth in the travel and tourism industry in India and the Government is keen to promote this industry because of its employment potential. With the help of this information, ITC planned new hotels both in India and abroad.

v) Change Agent: Business executives bring changes and transforming the industry to a higher level. Hence, they generate strong desire to change at the root level; Leaders must do environmental scanning in order to comprehend the aspirations of people and other environmental forces for example. Contemporary environment requires prompt decision-making and power to people. Therefore, business leaders are increasingly delegating authority to empower their staff and to eliminate procedural delays.

vi) Public Image: A business firm can improve its image by showing that it is sensitive to its environment and responsive to the aspirations of public. Leading firms like Tata, Bajaj Industries. Have built good image by being sensitive and responsive to environmental forces. Environmental understanding enables business to be responsive to their environment

vii) Continuous Learning: For business executives, environmental analysis provides broad-based, continual education. They are never caught off guard since it keeps them informed of how the situation is changing. Managers may respond appropriately to environmental changes with the aid of environmental learning, thereby enhancing the success of their enterprises.

1.6 IMPORTANCE OF BUSINESS ENVIRONMENT

Following are the significance of business environment.

i) The study of the business environment helps an organisation to

ii) develop its broad strategies and long-term policies.

iii) It enables an organisation to analyse its competitors' strat-egies

iv) and thereby formulate effective counter strategies. Knowledge about the changing environment will keep the organisation dynamic in its approach.

v) Such a study enables the organisation to foresee the impact of the socio–economic changes at the national and international level on its stability.

vi) Finally, as a result of the study, executives are able to adjust to the prevailing conditions and thus influence the environment in order to make it congenial to business

LET US SUM UP

We reside in a dynamic environment that is constantly changing. Business owners need to be aware of how the environment is changing and how it is affecting their operations. In this unit, we have learnt about definition of business environment, nature and significance of business environment, the importance of business environment.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. Which of the following is not a feature of business environment?

a) Inter-relatedness

b) Dynamic nature

c) The totality of external forces

d) Identify threats and early warning signals

2. Which of the following is not includes elements of social environment?

a) Social Values b) Tax Laws

c) Customs and Traditions d) Literacy Rates

3. The present and future viability of an enterprise are impacted by ____________.

a) Environment b) Culture

c) Time d) None of the Above

4. _____________ nature of business environment suggests that environment keeps on changing.

a) Dynamic b) Pervasive

c) Continuous d) Multidimensional

5. Which of the following is not a feature of business environment?

a) Uncertainty b) Interdependent

c) Complexity d) Stability

GLOSSARY

Business Environment	**:**	The sum of all conditions, events, and influences that surround and affect business activities and growth.
Business Opportunities	**:**	Business Opportunity refers to opportunities for self-development through trade or commerce. It also refers to opportunities to improve one's business growth and expansion.
Customer Focus	**:**	Customer focus is a business philosophy that places the customer at the center of all business development and management decision.
Strategy Formulation	**:**	Strategy formulation is the process of offering proper direction to a firm.
Change Agent	**:**	A change agent is an individual from inside or outside of a company whose job is to help revitalize a company in response to changing circumstances.
Public Image	**:**	What the general impression of a famous person or organisation is; what most people think of a person or organisation, which may differ from what they are like in private.

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4. https://www.youtube.com/watch?v=FCacrNZacm8

ANSWER TO CHECK YOUR PROGRESS

1.d) 2.b) 3.a) 4. a) 5. d)

UNIT 2

TYPES OF BUSINESS ENVIRONMENT

STRUCTURE

OVERVIEW

Every Business Organisation has to tackle its Internal and External environment. For example, a committed labour force provides an internal environment of any business while the ecological environment represents the external environment. While the internal environment reveals an organisation's strengths and weakness, the external environment reflects the opportunities available to the organisation and the threats it faces. India is a developing economy with abundant natural resources along large population. A low standard of living by a vicious cycle of poverty for a considerable section of population, and about 250 million people under the poverty line coupled with a considerable concentration of economic power in few hands characterize the Indian economy.

LEARNING OBJECTIVES

After studying this unit, you will be able to;

- explain the meaning of internal and external business environment
- analyze the internal and external factors affecting the business environment
- examine the comparison of micro and macro environment.

2.1 INTRODUCTION

A business environment is an ecosystem which consists of factors, people, and resources used to manage operations and problems and deliver solutions to clients. Activities related to supply chain management, logistics, HR recruitment, economic changes, market analysis, company ownership, etc., are included in this.

Business environments may directly or indirectly affect how a company runs, thus impacting the corporate culture of the place. Many internal and external factors affect business environments, and good business environments help to identify new revenue opportunities and improve their overall business planning, performance, and profitability.

2.2 TYPES OF ENVIRONMENTS

On' the basis of the extent of intimacy with the firm, the environmental factors may be classified in to different types or levels. As indicated below, there are, broadly,

i) Internal Environment: It represents the factors internal to the firm. The internal factors are generally regarded as controllable factors because the company has control over these factors; it can alter or modify such factors. For example, human resource factors, physical facilities and functional areas of management are affecting the business widely.

ii) External Environment: The factors external to the firm is known as external environment. The external factors are beyond the control of a company. The external or environmental factors such as the economic factors, socio-cultural factors, government and legal factors, demographic factors, geo-physical factors etc., generally regarded as uncontrollable factors.

2.3 INTERNAL ENVIRONMENT

The Main Internal factors which influence business decisions are as follows:

1) Financial Capability
2) Marketing Capability
3) Operations Capability
4) Personnel Capability
5) General Management Capability

2.3.1 Financial Capability

Financial capability factors relate to the availability, usage and management of funds. Some of the important factors which influence the financial capability of any organisation are as follows:

i) Factors related to the sources of funds like capital structure, procurement of capital, financing pattern, working capital availability, borrowing capital and credit availability, reserves and surplus, relationship with lenders, banks and financial institutions.
ii) Factors related to uses of funds in capital investment, fixed assets acquisition, current assets, loans and advances, dividend distribution and relationship with shareholders.
iii) Factors related to management of funds like financial accounting and budgeting management control system, state of financial health, cash, inflation, credit, return and risk management, cost reduction and control & tax planning and control its advantages.

Based on the above factors, a number of strengths and weaknesses can be found that affect the financial capability of an organisation. The absence or unavailability of these factors leads to the occurrence of weakness.

2.3.2 Marketing Capability

Marketing capability factors relate to the pricing, promotion and distribution of products or services and all the allied aspects to implement its strategies. Some of these important factors which influence the marketing capability of an organisation are as follows: -

i) Product related factors like design, colour, usage, mixed quality, packaging, etc.
ii) Price-related factors like pricing objective, policies followed in pricing, changes made in competitor’s pricing etc.
iii) Promotion related factors like promotional tools, sales promotion, advertising, public-relations etc.
iv) Integrative and systematic factors like marketing mix, distribution system, market standing, company image, marketing organisation, marketing system, marketing management, information system, etc.

An example of how weakness could be transformed to strength is the case of the Vicks range of products made by Procter & Gamble. During 1981-1982, the company faced a boycott from the chemists' association which demanded higher trade margins, a step which could have resulted in loss of sales and lower profitability. The company reclassified its products as ayurvedic since herbs and plants were being used as raw materials. Several advantages accrued from this, one being that the products could be sold by the non-chemists also.

2.3.3 Operations Capability

Operations capability factors relate to the production of the products or services, use of material resources and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies. Some of the important factors which influence operations capability of an organisation are as follows.

i) Factors related to the production system like capacity, location, layout, product or service design, work system, degree of automation, extent of vertical integration, etc.
ii) Factors related to the operation and control system like aggregate production planning, material supply, inventory, cost and quality control, maintenance system and procedure, etc.
iii) Factors related to the R & D system like personnel facilities, product development, patent right, level of technology used, technical collaboration and support, etc.

Mumbai Dyeing, a manufacturer of DMT used in the production of polyester filament yarn, used paraxylene as its basic raw material. Due to an unfavorable policy, it was not allowed to set up a paraxylene plant, as a result of which itches to depend on costly imports. Competitors like IPCL and Bongaiga on refineries have access to captive paraxylene units, creating a strategic disadvantage for Mumbai Dyeing and making it a high-cost producer of DMT

2.3.4 Personnel Capability

Personnel capability factors relate to the existence and use of human resources and skills and all allied aspects that have a bearing of an organisation's capability and capacity to implement its strategies. Some of the important factors which influence the personnel capability of an organisation are as follows.

i) Factors related to the personnel system like system for manpower planning, selection, development, compensation, communication and appraisal, position of the personnel department within the organisation, procedures and standards, etc.

ii) Factors related to organisational and employees' characteristics like corporate image, quality of managers, staff and workers, perception about and image of the organisation as an employer, availability of developmental opportunities for employees, working conditions, etc.

iii) Factors related to industrial relations like union-management relationship, collective bargaining, safety, welfare and security, employee satisfaction and morale, etc

Apollo Tyres has been adversely affected in the past due to the industrial relations' problems. Its plant is situated in Kerala which has a highly literate, militant and unionized work force. Due to this the company has been plagued with a number of problems, including that of low productivity of workers. In order to overcome this weakness which have affected its personnel capability, Apollo Tyres has formulated a personnel selection policy under which it has decided to hire plant workers who are above 28 years of age, are financially needy, married and settled. This is being done on the reasonable assumptions that older and settled workers would be less militant and would be keen to hold on to their jobs. Besides the selection policy, three-year agreements were signed with the unions to bring them under the purview of collective bargaining. All these steps have led to a situation where the company has been largely successful in overcoming its weaknesses in the personnel area.

2.3.5 General Management Capability

General management capability relates to the integration, coordination and direction of the functional capabilities towards common goals and all allied aspects that have a bearing on an organisation's ability to implement its strategies. Some of the important factors which influence the general management capability of an organisation are as follows:

i) Factors related to the general management system like strategic management system, process related to mission, purpose and objective setting, strategy formulation and implementation machinery, strategy evaluation system, management information system, corporate planning system, rewards and incentives system for top managers, etc.

ii) Factors related to general managers like orientations, risk propensity, values, norms, personal goals, competence, capacity for work, track record, balance of functional experience, etc.,

2.4 EXTERNAL ENVIRONMENT

The external environment can be divided into two viz.,

1) Micro Environment
2) Macro Environment

2.4.1 Micro Environment

The micro environment comprises the forces close to the company that affect its ability to serve its customers. This includes the suppliers, marketing intermediaries, competitors, customers and the public.

i) Suppliers: These are the firms and individuals who supply the inputs like raw materials and components to the company. Development in the suppliers' environment can have a substantial impact on the company's business and marketing operations. Supply shortages or delays, labour strikes and other events can affect sales in the short run and damage customer goodwill in the long run. It is very risky to depend on a single supplier. Hence, the company should have multiple sources of supply.

ii) Marketing Intermediaries: These are the firms that help the company to promote, sell and distribute its goods and services to the final buyers. They include middlemen, physical distribution firms, marketing service agencies and financial intermediaries. Middlemen such as wholesalers and retailers buy merchandise and resell. Physical distribution firms such as warehouse and transportation firms help the company to stock and move goods from their point of origin to their destination. Marketing service agencies such as marketing research firms, advertising agencies and marketing consulting firms help the company in targeting and promoting it products to the right markets. Financial intermediaries such as banks, credit companies and insurance companies help in financial transactions or insure against the risks associated with the buying and selling of goods. The company has to develop strong relationships with all these for the successful operation of its business.

iii) Customers: Every business enterprise must study its customer markets closely. The success of an enterprise depends upon its ability to create and sustain markets, viz., consumer markets, business markets, reseller markets, Government markets and international markets. Consumer markets consist of individuals and households. They buy goods and services for personal consumption. Business markets consist of producers and organisations who buy goods and services for further processing or for use in their production process. Reseller markets buy goods and services with a view to resell at a profit. Government markets consist of Government agencies who buy goods and services with a view to produce public services or transfer the goods and services to others who need them. International markets consist of foreign buyers, including con•sumers, producers, resellers and Governments. Each customer market has its own special characteristics. Hence, the seller should study each type of market carefully.

iv) Competitors: The success of an enterprise depends upon its ability to satisfy the needs and wants of consumers better than its competitors. Hence, the business concern should gain strategic advantage by positioning its goods strongly against the competitors' goods in the minds of consumers. The strategists should examine the state of competition the firm must face. The following three factors should be analysed: entry and exit of major competitors, substitutes and complements for current products services and major strategic changes by current competitors.

v) Public: A company's environment is surrounded by several types of public. Philip Kotler defines the term public as follows:

- "A public is any group that has an actual or potential interest in or impact on an organisation's ability to achieve its objectives."
- There are several types of public, such as financial public, media public, citizen-action public, local public, general public and internal public.
- Financial public includes banks, financial institutions and stock holders. They influence the company's ability to obtain funds.
- Media public consists of newspapers, magazines, radio and T.V. They carry news, features and editorial opinion.
- Citizen-action public represents consumer organisations, environmental groups and others. A company's decisions may be questioned by these groups.
- Local public is constituted of neighborhood residence and community organisations. Large enterprises appoint a community relations officer to deal with the local public.
- A company should consider the general public's attitude towards its products and services.
- The internal public of a company consists of its workers, managers, volunteers and the board of directors. Some organisations use newsletters and other means to inform and motivate their internal public.

It is to be noted that all these groups are not threats to business; some actions may create problems to the business while others may create opportunities.

2.4.2 Macro Environment

The macro environment consists of the larger social factors that affect the whole micro environment. Let us examine the important macro environmental factors.

i) Social Environment: The social environment factors consist of human relationships and the development, form and function of such a relationship having a bearing on the business of an organisation. Some of the important factors and influences operating in the social environment are the buying and consumption habits of people, their languages, beliefs and values, customs and tradition, tastes and preferences, education and all factors that affect the business. These factors are listed below:

- Demographic characteristics such as population, its density and distribution, etc.
- Social concern such as the role of business in society, etc.
- Social attitudes and values such as the expectations of the society from business.
- Family structures and changes in them.
- Role of women in society.
- Educational levels
- Awareness and work ethics

Vicks VapoRub which is a popular pain balm but is also used as a mosquito repellent in some of the tropical areas. Similarly, in some languages Pepsi Cola's slogan "Come Alive" translates as "Come out of the grave'.

ii) Political Environment: The political environment consists of factors related to the management of public affairs and their impact on the business of an organisation. Political environment has a close relationship with the economic system and the economic policy. For example, communist countries have a centrally planned economic system. In most countries apart from those laws that control investment and related matters, there are a number of laws that regulate the conduct of the business. These laws cover such matters as standard of product, packing, promotion, etc. India is a democratic country having a stable political system where the government plays an active role as a planner, promoter and regulator of economic activity. Businessmen therefore are conscious of the political environment that their organisation faces. Most government decisions related to business are based on political considerations in line with the political philosophy followed by the ruling party at the Centre and the state level.

The Political Environment had a direct impact on a company is of Apollo Tyres Ltd. Set up in 1972 in Kerala, the company suffered on account of hostile political environment which was taken over by the Janata Government in 1978. Legal battles ensured till 1982 when management was restored to its promoter Raunaq Singh. After that the company has turned around and is now on the path of stability and growth.

iii) Economic Environment: The Economic environment consists of macro level patterns related to the areas of production and distribution of wealth that have an impact on the business of an organisation. Some of the important factors and influences operating in economic environment are:

- Economic stages existing at a given time in a country
- The economic structure adopted such as capitalistic, socialistic or mixed economy.
- Economic planning, such as 5-years plans, annual budgets, etc
- Economic policies, such as industrial, monetary and fiscal policies.
- Economic indices like national income, distribution of income rate of growth and growth of GNP, per capita income, disposable personal income, rate of saving, investment value of imports and exports, balance of payments, etc

Infrastructural factors as financial institutions, banks, modes of transportation, communication facility, energy sources, etc

Public savings in India have been traditionally invested in fixed assets and precious metals. The share of savings invested with the Government has been channeled through post – offices and banks. However, of late the investors have increasingly turned to other avenues like stock markets and company deposits. Recent changes in economic and fiscal policies have led to many significant developments. Leasing and financing companies, public sector bonds' mutual funds, venture capital business, newer financial instruments, entry of banks and financial institutions in stock trading are some of the developments which provide the resources for capital market and project financing.

iv) Regulatory Environment: The regulatory environment consists of factors related of the planning, promotion and regulation of economic activities by the government that have an impact on the business of an organisation. Some of the important factors and influences operating in the regulatory environment are as follows: -

- The Constitutional framework, Directive principles, Fundamental rights and distribution of legislative power between Central and state Governments.
- Policies related to licensing monopolies, foreign investment and financing or industries.
- Policies related to distribution and pricing and their control
- Policies related to imports and exports
- Other policies related to the public sector, small – scale industries, sick industries, development of backward areas, control of environmental pollution and customer protection.

There are a number of administrative controls over business that are exercised through the regulatory mechanism. Some of the important areas of control are:

- Industrial policy and licensing
- Monopolies and restrictive trade practices
- Legislation related to a company's operation
- Capital issues control and control over stock exchanges;
- Import and export control and control over foreign exchanges
- Control over foreign investment and collaboration
- Control over distribution and pricing of commodities
- Control over development and regulation of industries
- Control through consumer protection
- Control of environmental pollution.

v) Market Environment: The market environment consists of factors related to the groups and other organisations hat compete with and have an impact on an organisations market and business.

- Customer or client factors such as the needs, preferences, perceptions, attitudes, values, bargaining power, buying behaviour and satisfaction of customers.
- Product factors such as the demand, image, features, utility, function, design, life cycle, price, promotion, distribution, differentiation and availability of substitutes of products or services.
- Marketing intermediary factors such as needs, preferences, perceptions, attitudes, levels and quality to customer service, middlemen, distribution channels, logistics, costs delivery systems and financial intermediaries.
- Competitor related factors such as the different types of competitors, entry and exit of major competitors, nature of competition and relative strategic position of major competitors.

Many companies make a special effort to be in touch with their market environment. For instance, Richardson Hindustan Ltd (now Producer & Gamble) has made it mandatory for its executives to visit the market once a year, talk to twenty dealers and twenty housewives as a precondition to their annual salary reviews.

vi) Supplier Environment: The supplier environment consists of factor related to the cost, reliability and availability of the factors of production or service that have an impact on the business of an organisation.

Some of the important factors and influences operating in the supplier environment are as follows:

- Cost, availability and continuity of supply of raw materials, sub-assemblies, parts and components.
- Cost and availability of finance for implementing plans and projects.
- Cost, reliability and availability of energy used in production.
- Cost availability and dependability of human resources
- Cost availability and the existence of source and means for supply of plant and machinery, spare parts and after – sales service.
- Infrastructural support and case of availability of the different factors of production, bargaining power of suppliers and existence of substitutes.

A specific example where the supplier environment threatened the very existence of a company is of Grasim Industries pulp unit at Mavoor in Kerela. It has faced, besides industrial relations problems, acute shortage of raw material and its availability at high cost. It used bamboo and other softwood supplied by the Kerala government as its main raw material. The price charged was thought to be unreasonably high and the supply was not only erratic but much less than required. Due to such an unfavorable supplier environment, the company had to temporarily close its factory in 1985.

vii) Technical Environment: The technological environment consists of those factors related to knowledge applied and the materials and machines used in the production of goods and services that have an impact on the business of an organisation.

Some of the important factors and influences operating in the technological environment are as follows: -

- Sources of technology like company sources, external sources and foreign sources, cost of technology acquisition, collaboration in and transfer of technology.

- Technological development, stages of development change and rate of change of technology and research and development.
- Impact of technology on human beings the man – machine system and the environmental effects of technology.
- Communication and infrastructural technology and technology in management.

In line with its concern for the technological environment, the Industrial Credit and Investment Corporation of India (ICICI) has set up the Technology Development Corporation (TDC) to finance ventures that have a high risk but possess growth resulting ideas coming from research institutions. The TDC also intends to provide a technology information service facility for industry.

viii) Natural Environment: Natural environment is the ultimate source of many inputs such as raw materials, energy which business firms use in the productive activity. In fact, availability of Natural resources in a region or country is a basic factor in determining business activity in it. Natural environment which includes geographical and ecological factors such as minerals and oil reserves, water and forest resources, weather and climatic conditions, port facilities are all highly significant for various business activities. For example, the availability of minerals such as iron. coal etc. in a region influence the location of certain industries in that region. Thus, the industries with high material contents tend to be located near the raw materials sources. For example, Steel producing industrial units are set up near coal mines to serve cost of transporting coal to distant locations.

ix) Global Environment: Even domestic business is affected by certain global factors. The global environment refers to those global factors which are relevant to business such as the WTO principles and agreements; other international conventions / treaties / agreements, declarations/ protocols etc., economic and business conditions / sentiments in other countries etc. Similarly, there are certain developments, like a hike in the crude oil price, which have global impact.

The WTO principles and regulations have far reached implications for Indian business. Acceptance of product patents, for example, seriously impacts the Indian pharmaceutical industry. The import and investment liberalisations mandated by WTO have substantially changed the competitive environment in India.

Economic conditions in other countries may affect the business. For example, if the economic conditions in a company’s export markets are very good, export prospects are generally very good and vice versa.

Recession in other countries can increase the import threats, including dumping. International political factors can also affect business, like war or political tensions or uncertainties, strained political relations between the nation and other countries (which some time even culminates in sanctions). Developments in information and communication technologies facilitate fast cross border spread of cultures, significantly influencing attitudes, aspirations, tasters, preferences and even customs, traditions and values. This has significant implications for business.

LET US SUM UP

The environment in which an organisation exists could be broadly divided into two parts: external and internal environment. We began by gaining an understanding of the concept of environment. This is done through a description of four important characteristics of the environment leading its external and internal parts.

As the company, generally has control over the internal factors, they are generally regarded as controllable factors because it can alter or modify such factors as financial capability, marketing capability, to suit the environment. The external environment has broadly, two components, viz Micro and Macro environment.

We see how the external environment, specially that part which is more relevant to an organisation can be divided into different components. For the purpose of understanding and analysis we have discussed seven components of the external environment – social, political, economic, regulatory, market, supplier and technological. For each component we have explained through appropriate illustrations, the type of factors and influences which operate in that part of the environment. The significance of these factors for the strategic management of the organisation has also been highlighted.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. Business Environment classified into__________.

a) Two b) Three c) Four d) Five

2. Find out an element which is not a part of Business Environment _________.

a) Legal b) Technology

c) Medical d) Finance

3. Two broad Types of Environments refers__________.

a) Internal and External b) Business and Non-Business

c) Micro and Macro	d) None of the above

4. Environment sets the basis for developmental activity of business system_________.

a) Financial Environment	b) Technological Environment

c) Global Environment	d) Macro Environment

5. Business across several countries with some decentralisation of management decision making to subsidiaries is_________.

a) Global business	b) Multinational business

c) Transnational business	d) multi-regional business

GLOSSARY

Micro Environment	:	The micro environment comprises the forces close to the company that affect its ability to serve its customers. This includes the suppliers, marketing intermediaries, competitors, customers and the public
Macro Environment	:	The macro environment consists of the larger social factors that affect the whole micro environment
Marketing Intermediaries	:	These are the firms that help the company to promote, sell and distribute its goods and services to the final buyers. They include middlemen, physical distribution firms, marketing service agencies and financial intermediaries
Public Environment	:	A public is any group that has an actual or potential interest in or impact on an organisation's ability to achieve its objectives
Political Environment	:	The political environment consists of factors related to the management of public affairs which has close relationship with the economic system and the economic policy.

Social Environment	**:**	The social environment factors consist of human relationships in buying and consumption habits of people, their languages, beliefs and values, customs and tradition, tastes and preferences, education and all factors that affect the business
Economic Environment	**:**	The Economic environment consists of macro level patterns related to the areas of production and distribution of wealth which includes income, distribution of income rate of growth and growth of GNP, per capita income, disposable personal income, rate of saving, investment value of imports and exports, balance of payments, etc.
Technological Environment	**:**	The technological environment consists of those factors related to knowledge applied and the materials and machines used in the production of goods and services that have an impact on the business of an organisation

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ANSWER TO CHECK YOUR PROGRESS

1.a)	2.d)	3.a)	4.a)	5.b)

UNIT 3

ENVIRONMENTAL ANALYSIS

OVERVIEW

Environment Analysis plays a vital role to assess the factors which affect the performance of an organisation. Hence it is used as a strategic tool to spot all the external and internal factors, in order to measure the amount of threat or opportunities which the organisation faces in every walk of business life. These evaluations are later translated into the decision-making method. The analysis helps to align strategies to cope with the firm's atmosphere. It is the process of collecting and analyzing the data and conditions outside of a business. A business environment analysis is also commonly known as a marketing environment analysis and is typically conducted and presented in the form of a report

To perform environmental analysis, a constant stream of relevant information is required to find out the best course of action. Strategic planners use the information gathered from the environmental analysis and forecasting trends for future in advance. The information can also be used to assess operating environment and set up organisational goals.

LEARNING OBJECTIVES

After studying this unit, you will be able to;

- describe the meaning of environmental analysis
- discuss the importance of environmental analysis
- state the steps involved in environmental analysis
- explain the benefits and limitations of environmental analysis
- analyze the techniques used for environmental analysis.

3.1 INTRODUCTION

Environmental analysis is the process through which an organisation monitors and comprehends various environmental forces so as determine the opportunities and threats that lie ahead. This process is also known as environmental appraisal or environmental scanning. Environmental analysis is an exploratory process undertaken to ascertain what could happen it future. It is a holistic exercise in which total view of the environment is taken rather that viewing the environmental forces in a piecemeal manner. This is necessary because different elements of business environment are interrelated and interdependent. Environmental analysis has to be a continuous process so that the enterprises can pick up signals in time and is not caught unaware.

3.2 IMPORTANCE OF ENVIRONMENTAL ANALYSIS

Environmental analysis offers the following benefits:

i) Environmental analysis makes managers aware of the linkage between organisation and its environment and keeps them alert and informed.
ii) Environmental analysis helps the company to identify the threats and opportunities before it. It serves as an early warning signal allowing the company to develop appropriate responses.
iii) Through environmental analysis an organisation can gain understanding of how the industry 's environment is being transformed.
iv) The environment changes so fast that an organisations equilibrium with its environmental may be disturbed quickly. With the help of environmental analysis, the organisation can know the causes of disequilibrium. Suitable changes can then be made to create the new equilibrium.
v) Environmental analysis helps the planners to narrow the range of available alternatives and eliminate options that are clearly inconsistent with forecast opportunities or threats. The analyses

permit elimination of unsuitable alternatives and thereby concentrate on more important options.

vi) Environmental analysis is essential for the formulation of right strategies and for modification of existing strategies as and when necessary

3.3 STEPS IN ENVIRONMENTAL ANALYSIS

Environmental analysis consists of four important steps

i) Scanning of Information
ii) Collection of Data
iii) Forecasting
iv) Monitoring and Assessment

i) Scanning of Information: It is a very important step in Environmental analysis. This includes demographic factors like age, sex, family size, income, education and occupation. Psychographic factors include personality and life style of customers. Many organisations have MIS (management information system), to collect data on economic, cultural, social, political, legal, competitive, demographic, Technological and international environments. Searching and scanning are very essential for systematically gathering processing, storing and disseminating information.

ii) Collection of Data: It Involves identification of sources of information, determination of the types of information to be collected, selection of the suitable method for data collection and required information.

iii) Forecasting: A business requires effecting formulation of plans and strategies since forecasts of important business environments, viz economic environment, social environment and political environment. The economic forecasts include general economic conditions, GDP Growth rate, per capita income, distribution of income, structural changes in GDP investment and output trends in different sectors and sub – sectors industries, price trends, trade and balance of payment trends etc, the sources of such data can be drawn from published information of World Bank, IMF, UNO, WTO, ADB, and planning commission. Social forecasts include population growth, age, structure of population, occupational pattern, rural urban distribution of population, migration, factors related to family, life style, income levels expenditure pattern and social attitudes etc. Political forecast includes changes on the relative power of political alliances, political ideologies, and changes in internal power structural of political parties for e.g., Pre- election option polls help certain political forecasts. The Afghanistan– US war made a dent in the economy of many countries. The Iran –Iraq war determine the petroleum oil prices. Technological Forecasting, Innovation, and technological development can affect business environment. The penetration of computer and internet has direct implication for business.

iv) Monitoring and Assessment: This step is an important step in measurement of changes in the current environmental variables and projection of environmental changes.

3.4 BENEFITS AND LIMITATIONS OF ENVIRONMENT ANALYSIS

Benefits Of Environmental Analysis

- A firm can plan for its current or future business.
- A firm can develop long – term strategies with respect to the environmental factors.
- To be dynamic
- Formulation of strategies to counter the strategies of competitors.
- To foresee the impact of socio-economic changes of the firm.

Limitations Of Environmental Analysis

- Environmental analysis cannot predict the future precisely
- Environmental analysis is one of the inputs in strategy development and testing
- Wrong data or insufficient data may lead to confusion.
- Too much of dependence on Environmental scanning may push the executives to "Inactive mode"

3.5 TECHNIQUES OF ENVIRONMENTAL ANALYSIS

The following Techniques used of Environmental Analysis in the business such as

1. Quick Environmental Scanning Technique Analysis (QUEST)
2. Strengths Weaknesses, Opportunities and Threats Analysis (SWOT)
3. Political Economic Social and Technological Analysis (PEST)

1. Quick Environmental Scanning Technique Analysis (QUEST)

QUEST is an environmental scanning technique that is designed to assist with organisational strategies by keeping adheres to change and its implications. Different steps involved in this technique are as follows:

- The process of environmental scanning starts with the observation of the organisation's events and trends by strategists.
- After observation, important issues that may impact the organisation are considered using environment appraisal.

- A report is created by making a summary of these issues and their impact.
- In the final step, planners who are all responsible for deciding the feasibility of the proposed strategy, review reports.

2. Strengths Weaknesses, Opportunities and Threats Analysis (SWOT)

SWOT analysis stands for strengths, weaknesses, opportunities and threats analysis of a business environment. Strengths and weaknesses are an organisation's internal factor while threats and opportunities are considered as external factors. So, the process of SWOT analysis includes the systematic analysis of these factors to determine an effective marketing strategy. It is a tool that is used by the organisation for auditing purposes to find its different key problems and issues.

These are identified through internal and external environmental analysis.

Internal Environment Analysis

Different factors are considered while analyzing the internal environment of an organisation like the structure of the organisation, physical location, the operational capacity and efficiency of the organisation, market share, financial resources, skills and expertise of employees, etc. Internal Environment Analysis consist of two factors

- Strength
- Weakness

Strengths

The strength of any organisation is related to its core competencies i.e. efficient resources or technology or skills or advantages over its competitors. For example, the marketing expertise of a firm can be its strength. Apart from this, an organisation's strength can be:

- Strong customer relations
- Market leader in its product or services
- Sound market image and reputation
- Smooth cash-flows

Weaknesses

A weakness or limitation of an organisation is related to the scarcity of its resources or skill-set of staff or capabilities that creates an adverse effect on its performance. For example, limited cash-flow and high cost are considered as a financial weakness of the organisation. Similarly, other weaknesses can be:

- Poor product quality
- Low productivity
- Unrecognized brand name or poor brand image

External Environment Analysis or Scanning

Different factors that are considered while scanning the external environment of the organisation like Competitors, customers, suppliers, technology, social and economic factors, political and legal issues, market trends, etc. It consists of two factors namely:

- Opportunities
- Threats

Opportunities

An opportunity of the organisation's environment is considered as its most favorable situation. These are the circumstances that are external to the business and can become an advantage to the organisation. For example, different opportunities for a firm can be:

- Social media marketing
- Mergers & acquisitions
- Tapping of new markets
- Expansion in International market
- New Product Development

Threats

Threats of an organisation are current or future unfavorable situations that may occur in its external environment. For example, below are a few major threats for a firm:

- A new competitor in the market
- The slow growth of the market
- Changing customer preferences
- Increase in the bargaining power of consumers
- Change in regulations or major technical changes

3. Political Economic Social and Technological Analysis (PEST)

PEST technique for a firm's environmental scanning includes analysis of political, economic, social, and technical factors of the environment.

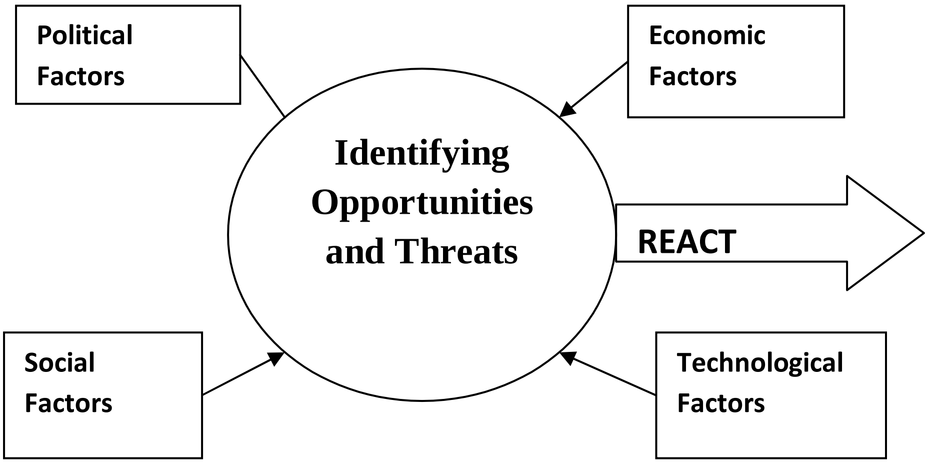

Figure 3.1 Political Economic Social and Technological Analysis (PEST)

a) Political or Legal Factors

Changes in political/legal factors affect the business widely. The various economic factors affecting the business are as follows:

- Tax Policy,
- Labor Law,
- Environmental Law,
- Trade restrictions, tariffs

So, scanning of these factors is very important for taking the strategic decision of the business.

b) Economic Factors

Different economic Factors which affect the business are listed below:

- Economic Growth Rate,
- Interest Rate,
- Exchange Rate,
- Inflation,
- Unemployment Rate,
- Cost Of Labor,
- Economic Trends,
- Disposable Income of Consumers,
- Monetary Policies Etc.,

For example, in the case of high unemployment, a company may decrease the prices of its products or services and in opposite situation i.e., when the unemployment rate is low then prices can be high. This happens because if more customers are unemployed then by lowering the prices, an organisation can attract them.

c) Social or Cultural Factors

PEST analysis also takes into consideration social factors, which are related to the cultural and demographic trends of society. Social norms and pressures are key to determining a society's consumerist behavior. Factors to be considered include the following

- Attitude, trends, and behavioral aspects of society
- Cultural Aspects
- Health Consciousness
- Age distribution

These factors create an impact on the functioning of the organisation. Studying and understanding the lifestyle of consumers is very much required to target the right audience and to offer the right product or services based on their preferences.

For example, Issues and policies related to the environment like pollution control are also being considered by organisations to ensure that it operates in an environment-friendly atmosphere. Taking care of the cultural aspect of different countries while doing business at the international level, is also an important factor.

d) Technological Factors:

Technological Factors are linked to innovation in the industry, as well as innovation within the overall economy. Not being up to date on the latest trends of a particular industry can be extremely harmful to operations. Technological Factors include the following:

- Research & Development Activity
- Automation
- Technological Incentives
- The rate of change in technology

To maximize profits, production should be handled most cost-effectively and this, technology has an important contribution.

For example, an increase in computer and internet-based technology is playing a major role in the way organisations are distributing and marketing their products and services. Also, different advancements in technologies like automation of the manual process and use of machinery based on more advanced and latest technologies, more investment in research & development by organisations have increased their efficiency by increasing production in less time, cost reduction and better investment in the long run.

LET US SUM UP

This unit provides a comprehensive knowledge of the many methods used by the organisation to assess the environment and how successful strategists seek to foresee what will happen next or attempt to affect the environment in a positive direction. It provides a detailed breakdown of the stages involved in environmental analysis. It provides an outline of the advantages associated with environmental analysis as well as its limits.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. Environmental analysis includes___________.

a) Ideologies b) Geographical, Economic, Political

c) Scriptures d) Marketing and Finance

2. Environmental analysis consists___________.

a) Scanning of Information

b) Collection of Data

c) Forecasting, Monitoring and Assessment

d) All the above

3. The quick techniques used for environmental scanning is__________.

a) PEST b) SWOT

c) QUEST d) None of the above

4. The Factors are linked to innovation in the industry, as well as innovation within the overall economy__________.

a) Political Factors b) Social or Cultural Factors

c) Economic Factors d) Technological Factors.

5. The factors are considered while analyzing the internal environment of an organisation is___________.

a) Strength and Weaknesses b) Opportunities and Threats

c) Strength and Opportunities d) Weaknesses and Threats

GLOSSORY

Environmental Analysis	:	Environmental analysis is the process through which an organisation monitors and comprehends various environmental forces that affect the organisation and determine the opportunities and threats that lie ahead
Forecasting	:	Forecasting is a technique that uses historical data as inputs to make informed estimates that are predictive in determining the direction of future trends.
Scanning of Information	:	It is the process of gathering information about events and their relationships within an organisation's internal and external environments. It helps management determine the future direction of the organisation.
Quest Analysis	:	The QUEST Analysis, or "Quick environmental scanning Technique," describes a procedure that allows for the estimation of diverse environmental variables and evaluates their impact on an organisation.
Swot Analysis	:	SWOT analysis stands for strengths, weaknesses, opportunities and threats analysis of a business environment. Strengths and weaknesses are an organisation's internal factor while threats and opportunities are considered as external factors
Pest Analysis	:	PEST technique for a firm's environmental scanning includes analysis of political, economic, social, and technical factors of the environment.

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ANSWER TO CHECK YOUR PROGRESS

1.b)	2. d)	3. c)	4. d)	5. a)

BLOCK -2

Unit 4 : Managing Diversity and Nature, Scope of Business

Unit 5 : Political Environment

Unit 6 : Business and Government

Unit 7 : Legal Environment

UNIT 4

MANAGING DIVERSITY AND NATURE, SCOPE OF BUSINESS

OVERVIEW

Managing for diversity is a management strategy that intends to make productive use of human resources and remove the ethnic and other differences between individuals. It is based on the principle that if they are well managed, diverse teams will produce better results and diverse companies will gain market advantage. The basic concept of managing diversity accepts that the workforce consists of a diverse population of people. The diversity consists of visible and non-visible differences among employees such as sex, age, education, religion, language, family background, race, disability, personality and work style etc., Hence diversity in management focuses for taking effective measures in harnessing these differences or balancing these differences effectively, which would create a productive environment in which everybody feels they are valued properly, their talents are being fully utilized whereby the organisational goals are met easily and successfully.

LEARNING OBJECTIVES

After studying this unit, you will be able to;

- explain meaning of managing diversity
- discuss the dimensions of managing diversity
- describe the significance of workforce managing diversity
- examine the techniques of managing diversity
- analyze the challenges of diversity management
- explain the meaning of business
- discuss the nature of business
- describe the objectives of business
- explain the significance or importance of business
- discuss the scope of business.

4.1 INTRODUCTION

It means creating an organisational climate in which a heterogeneous workforce performs to its best potential; without the organisation favoring or un-favoring any particular segment of workforce with a view to facilitating the best attainment of organisational goals.

4.2 DIMENSIONS OF MANAGING DIVERSITY

Diversity exists in the organisation due to the following factors/dimensions.

i) Age: People belonging to different age groups cause diversity in workforce. Young people may be enriched with health, merit, capacity for hard-work etc.; while elderly people may possess more maturity than their junior counterparts and are full of experiences of life.

ii) Gender: Male workers are usually aggressive, bold and materialistic; while female workers possess sympathy for others and are more concerned with quality of life. What is important to observe is that people of both sexes have material differences in outlook, nature, habits etc.; as differences between males and females are the design of God who created mankind.

iii) Education: In an organisation people may range from less educated to highly educated. Educated people have a broad outlook and are open-minded. They are endowed with logic and rationality and usually dislike discrimination among individuals on petty grounds of caste, color, religion etc.

iv) Culture: Culture is a complex of race, religion, language, social traditions and values etc. People from different cultural backgrounds may have ethnic orientations i.e., a sense of favoritism towards their nation, race or tribe, which they belong to.

v) Psychology: In an organisation, there are people with different psychology. Some may be optimistic or pessimistic; some may be bold or timid or so on. Psychology may be a gift of Nature or a manifestation of family background or social affiliations.

4.3 SIGNIFICANCE OF WORKFORCE DIVERSITY MANAGEMENT

Workforce diversity management is significant for the following reasons:

i) Ability to Deal with Diverse Market: Culturally diverse workforce can better appreciate the needs, feedings, and attitudes of culturally diverse consumers. Thus, workforce diversity increases the competence of a corporation to deal with a market; that consists of diverse consumer groups in respect of age, sex, culture etc.

ii) Better Decision-Making: People from heterogeneous backgrounds may aid management in better decision-making, by offering suggestions from a wide range of perspectives and orientations. In fact, heterogeneous groups of people may be more creative and innovative; when they pool their knowledge and experiences and agree on a common solution to a tricky problem; which might aid management in making excellent decisions for the organisation.

iv) Better Human Relations: Workforce diversity management aims at developing and nurturing a common organisational culture and climate; which enable people from diverse culture and backgrounds to co-exist peacefully. Such a common organisational culture and climate leads to better human relations in the enterprise and produces all-round organisational and managerial efficiency.

v) Preventing Unnecessary Labor Turnover: When in an organisation there is good workforce diversity management; women and other dissatisfied people are prevented from leaving the organisation. In case otherwise, when there is large labor turnover because of poor workforce diversity management; investment made in manpower may go waste, with other bad consequences for the organisation. In fact, employees leave the organisation when they do not feel comfortable and duly cared for by management.

vi) Building of Goodwill of the Enterprise: Companies with excellent workforce diversity management build goodwill in the society. As such, talented people of society with diverse backgrounds and culture get attracted towards it for seeking suitable employment. Such companies never have a problem of the scarcity of skilled, educated and talented human capital.

4.4 TECHNIQUES OF MANAGING DIVERSITY

i) Creating Awareness of Diversity: Management must create awareness in the organisation that differences among people as to age, sex, education, culture etc. exist in workforce; so that people may try to understand one another in a more rational and friendly manner.

ii) Creating Conditions for Common Organisational Culture: Organisation must develop cross-cultural training programmes creating conditions for development of a common organisational culture and climate. Such common culture will create an environment in which a diversified work force can co-exist comfortably, peacefully and happily.

iii) Programmes of Special Care for Diversified Workforce: Management must design programmes of special care, like the following:

- Care for elderly people
- Special work schedules to provide convenience to female workers etc.

iv) Career Development Programmes: There must be programmes for identifying each individual's strengths, weaknesses and potential for career development; so that the organisation can capitalize on the peculiar features of a diversified workforce.

v) Avoiding Discriminations: A very significant technique for excellent workforce diversity management is to avoid any sort of discrimination among people on the basis of age, culture and specially sex. In the most developed country the U.SA, the Glass Ceiling Commission states that between 95% and 97% of senior managers in the country's biggest corporations are men. (The term 'glass ceiling' describes the process by which women are barred from promotion by means of an invisible barrier).

vi) Prevention of Sexual Harassment: With the entry of a large number of women in organisations, the phenomenon of sexual harassment is usually witnessed; which management must prevent by all means and at all costs. Sexual harassment includes a range of actions, like – unwelcome touching, joking, teasing, innuendoes (indirectly bad and rude remarks), slurs, and the display of sexually explicit materials.

vii) Committees of Diverse Members: Committees of diverse members must be formed for evaluating and addressing complaints of people, regarding their sad experience of working in the organisation

4.5 CHALLENGES OF DIVERSITY MANAGEMENT

Embracing and managing diversity in today's business world is not a recommendation – it's an essential part of successful business practices. Even when business leaders understand and value the differences in the people in their companies, they face challenges when managing diversity programs. Leaders need to spend the time necessary to fully understand the issues that can lead a w ell-intended diversity program to backfire and create problems.

i) Understanding the Value of Differences: Business leaders know that embracing diversity brings various voices to a team, improves morale and increases overall productivity. However, when they develop and manage diversity programs, managers have difficulty understanding the value of each person's unique abilities or voice. This may be the result of unintended personal bias and differences. Even with diversity programs in place, some team members may be reluctant to share ideas or provide feedback based on historical cultural experiences.

ii) Help Employees Understand their Value: Managers work with employees to help them understand their own value to the team. Holding team-building exercises encourages every member to work on a task that is not job-related while getting to know other employees in different ways. They schedule diversity potlucks where employees share their culture through food. By going beyond policies and creating diversity-building programs, business leaders motivate everyone on the team to share and celebrate.

iii) Combating and Managing Discrimination: While a business leader may try to develop a diversity program to build team spirit and morale, there may be instances where certain employees still have conflicts. Discrimination not only kills team morale and negatively impacts performance, but it is a human resources issue that companies need to address before facing lawsuits. Managing discrimination is challenging. There may be times where someone claims to be discriminated against by another employee when no discrimination occurred.

iv) Publishing and Implementing Workplace Rules: Business leaders protect themselves against discrimination and effectively manage diversity platforms by publishing and implementing workplace rules and protocols that are the same for every complaint. Employee handbooks need to clearly explain the company diversity and anti-discriminatory policies. They should also give employees protocol to follow when they feel there is an infraction of the policy. Investigations should be thorough and unbiased with documentation and actions taken when necessary.

v) Including and Celebrating Everyone: Diversity by its definition attempts to celebrate people for who they are, their backgrounds and what makes them unique. Managing programs runs the risk of incidentally leaving out one particular group whether it be religious, ethnic or lifestyle. What business leaders have come to realize is that in growing diversity programs to celebrate one group, there is the risk of offending another. For example, as businesses moved toward gender-neutral restroom policies, some groups celebrated the progress being made toward the transgender community while others became outraged. It is this fine line that managers must walk when they develop policies and programs that support office diversity.

4.6 INTRODUCTION TO BUSINESS

Literally speaking, the term 'business' means 'busy' or 'occupied'. In practice, business includes certain economic activities in which people are busy or engaged. Such activities relate to production, distribution, trading or exchange of goods and services to satisfy the needs of people so as to earn income or profit. A business is created to provide products or services to customers. If it can conduct its operations effectively, its owners earn a reasonable return on their investment in the firm. In addition, it creates jobs for employees. Thus, businesses can be beneficial to society in various ways.

A business (or firm) is an enterprise that provides products or services desired by customers. Along with the large, businesses such as Tata, Reliance, there are many thousands of small businesses by the people which provide employment opportunities and produce products or services which satisfy the customers in great way.

4.6.1 Definition

"Business may be defined as human activity directed towards or acquiring wealth through buying and selling of goods." **– Lewis H. Haney**

"Business may be defined as an activity in which different persons exchange something of value, whether goods or services, for mutual gain or benefit" **– Peterson and Plowman**

"Business is an enterprise engaged in the production and distribution of goods for sale in the market or rendering service for a price." – **R. N. Owens**

4.6.2 NATURE OF BUSINESS

i) It is a Human Activity: Business is a human activity which makes available goods and services to the society. It is not engaged for mere production but expecting the exchange value known as return for their supplies made to the people. Hence giving gifts to somebody will not be treated as business.

ii) Continuous Economic Activity: In business an economic activity must be repeated again and again. For example, if a person sells his own house, this activity does not come under the framework of business

iii) Profit Motive: Any economic activity which leads to generation of profit is considered as business. Suppose if a person is engaged in social service or preaching about the religion cannot be treated as business.

iv) Entrepreneurship: One cannot run any sort of business without the element of entrepreneurship irrespective of the size of the business. Business can only be run by a daring person who has the ability to face risk of loss.

v) Creation of Utility: Man, only converts the form of resources which are provided by the nature according to his need and preferences. The business changes the form, place and possession of utility of goods and makes them available in usable form. Hence it is stated that the business creates the utility of the things so that these can be consumed.

4.6.3 OBJECTIVES OF BUSINESS

Success in business depends on proper formulation of its objectives. Objectives must be clear, and attainable. Thus, the objectives of business may be classified as –

- Economic objectives
- Social objectives
- Human objectives
- National objectives
- Global objectives

Now let us discuss these objectives in detail.

Economic Objectives

The first and predominant objective of any business is to earn profit. All the activities which he undertakes aim to reach the goal of earning profit. Some of the main economic objectives of business are:

- Earning of adequate profits;
- Exploring new markets and creation of more customers;
- Growth and expansion of business operation;
- Diversification of business operations.
- Making innovations and improvements in goods and services; and
- Making use of available resources in the best possible manner.

Social Objectives

Social objectives are those, which are desired to be achieved for the benefit of the society. Some of the major social objectives are:

- Production and supply of quality goods and services to the society;
- Selling goods at reasonable prices;
- Avoidance of unfair practices like hoarding, black-marketing, over-charging, etc.;
- Contributing towards the general welfare and upliftment of the society;
- Ensuring fair return to the investors;
- Taking steps in the direction of consumer education; and
- Conserving natural resources and wild life and protecting the environment.

Human Objectives

It primarily refers to the objectives aimed at safeguarding the interest of its employees and their welfare. Some of the major human objectives are:

- Providing fair remuneration and incentives to the employees;
- Arrangement of better working conditions and proper work environment for the employees;
- Providing job satisfaction by making the jobs interesting and challenging, putting the right persons in right job;
- Providing the employees with more and more promotional opportunities;
- Organizing training and development programs for the growth of the employees; and
- Providing employment to the backward classes of the society and people who are physically and mentally challenged.

National Objectives

These are the objectives of fulfilling the national goals and aspirations. Some of the National objectives are:

- Creation of employment opportunities
- Promotion of social justice
- Produce and supply goods in accordance with the national interest and priorities
- Payment of taxes and other dues honestly and regularly to the state and nation
- Helping the state in maintaining law and order by promoting good industrial relations
- Implementing government's economic and financial policies.

Global Objectives

These are the objectives to face the challenges of global market. Some of the global objectives are:

- Making available globally competitive goods and services; and
- Reducing disparities among rich and poor nations by expanding its operations.

4.6.4 SIGNIFICANCE OF BUSINESS OR IMPORTANCE OF BUSINESS

Business is an integral part of modern society. It is an organized and systematized activity for achieving profit. It is concerned with activities of people working towards a common goal. The modern society cannot exist without business. The need and importance of business in society can be described as follows:

i) Improvement in standard of living: Business helps people in general to improve their standard of living.

ii) Proper utilisation of resources: It leads to effective utilisation of the scarce resources of society. It provides facility of mass production which ultimately brings economies of scale.

iii) Better quality and large variety of goods and services: It involves production, purchase and sale of goods and services at reasonable price. Customer' satisfaction is the backbone of modern business. Services such as supply of water, electricity etc. may be considered highly significant for the welfare of the community

iv) Creates utilities: Business makes goods more useful to satisfy human wants. It adds to products the utilities of person, time, place, form, knowledge etc. Thus, people are able to satisfy their wants effectively and economically.

vi) Employment opportunities: It provides employment opportunities to large number of people in society.

vii) Workers' welfare: Business organisations these days take care of various welfare activities for workers. They provide safer and healthier work environment for employees.

4.6.5 SCOPE OF BUSINESS

The term business includes the industry and commerce and trade**.**

1. Industry

The word "Industry" refers to the business activities which are connected with the extraction and production or manufacturing of products. The product produced by an industry is either used by the large consumers or again by the industry. If the product is used by the consumer, it is called consumers' goods such as clothes.

If the product is used again by the industry, it is called the producer's goods or capital goods. In a case when a product produced by the industry is further processed into finished products for other purposes, they are called intermediate goods. e.g., plastic.

The industry is further divided into types on the basis of business activity:

i) Extractive Industries: The industries which extract, and manufacture raw materials from above or under the Earth's surface are known as Extractive Industries and they include mining, fisheries, forestry and agriculture, etc.

ii) Genetic Industries: The industries which are involved in reproducing and multiplying certain species of animals and plants and sell them in the market to earn a profit are named as Genetic Industries. These industries include cattle breeding farms, poultry farms and plant market, etc.

iii) Constructive Industries: The industries which are involved in the construction of building, canals, bridges, dams and roads, etc. are called Constructive Industries.

iv) Service Industries: The industries which are involved in manufacturing the intangible goods which cannot be seen but felt such as services of professionals like doctors, lawyers are examples of Service Industries.

2. Commerce

The second component of the scope of business is Commerce. It involves the buying and selling of goods and all the activities which are associated with the transfer of goods from the production source to the ultimate consumers or destination. The ranges of activities related to Commerce take place through:

3. Trade

The process of buying and selling goods is called Trade. It is the process of exchanging goods and services amongst the buyers and sellers and both of them earn profits. Trade can be classified into two types; internal and external.

i) Internal Trade: The process of buying and selling goods within a country is called internal trade. The internal trade can be either wholesale trade or retail trade.

ii) Wholesale Trade: In wholesale trade, the goods are purchased in bulk from the producers and sell them to the retailers. These retailers then sell these goods to the final consumers.

iii) Retail Trade: In the retail trade, the retailer sells goods and services to the final consumers.

iv) External Trade: The process of buying and selling goods between the two countries is called external trade. The external trade has two types; import trade and export trade.

The elements which help in the purchasing of goods and services are called aid to trade. There are certain constituents that are essential for the progress of the trade and are as follows:

i) Transport: By using different ways of transport, the goods are transported from industry to the consumers. It includes railways, ships, airlines, etc.

ii) Insurance: Insurance is very important to aid to trade. Insurance reduces the risk of damage to goods due to fire, flood or earthquake, etc. by paying a good amount in this regard.

iii) Warehousing: Warehouses are used to keep the goods and are released and are delivered to the market when demanded. Thus, warehousing plays an important part to overcome the barrier of time and helps the goods reach the consumers in a short span of time.

iv) Banking: Commercial banks play an important role in financing trade activities. They provide funds to the traders for stock holding and transporting the goods. They also support the producers in purchasing and receiving at both national and international levels. The banks also offer credit facility in the form of cash credit, overdrafts and loans to the traders.

v) Advertisements: Advertisements play an important part in selling the good to the consumers. The advertisement is either shown on television or printed in newspaper or magazines etc. and help the consumers to choose their desired product. Thus, advertisements are very important for the seller as well.

LET US SUM UP

We can understand that the world's increasing globalisation and increasing population bring more interaction among people from diverse backgrounds. Most workplaces are made up of diverse cultures, age, education etc., so organisations need to learn how to manage this diversity in management. We understand different organisations adopt different technique like career development programs, avoiding discrimination, and committee of diverse management etc., to handle the diverse situations effectively. It requires the organisations to review their management practices and develop new and creative approaches to managing people. Positive changes will increase work performance and customer service.

This unit gives the clear understating of the objectives of business and scope of business in detailed way along with diversity exists in the organisation. The significance of diverse management explains the necessity to adopt diverse management technique to educate everyone about diversity and its issues, including laws and regulations.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. Which is Not considered a core Dimension of Managing Diversity?

a) Age　　　　b) Gender

c) Weight　　　　d) Ethnicity

2. Workforce Diversity Management is significant for___________.

a) Decision Making
b) Better Human Relation
c) Reduction of Labour Turnover and Building of Goodwill
d) All the above

3. Which of the following does not characterize business activity?

a) Production of Goods and Services

b) Presence of Risk

c) Sale or Exchange of Goods and Services

d) Salary or Wages

4. Which of the following cannot be classified as an objective of business?

a) Investment	b) Productivity
c) Innovation	d) Profit Earning

5. Business is___________.

a) Art	b) Science
c) Both Art and Science	d) None of these

GLOSSARY

Diversity Management	:	It means acknowledging people's differences and recognizing these differences as valuable;
Human Relations	:	It is defined as relations with or between people, particularly in a workplace setting.
Labour Turnover	:	Labour turnover, also known as employee or staffing turnover, is the frequency with which the employees of an organisation leave their jobs.
Discrimination	:	Discrimination is the act of making unjustified, prejudiced distinctions between people based on the groups, classes, or other categories to which they belong or are perceived to belong.
Proliferation	:	A rapid increase in the number or amount of something.
Rural Market	:	Rural market includes all business activities which involved in flow of goods and services from producers to rural consumers.

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ANSWER TO CHECK YOUR PROGRESS

1.c) 2. d) 3. d) 4. a) 5. c)

UNIT 5

POLITICAL ENVIRONMENT

STRUCTURE

OVERVIEW

In an economy, all the sectors of business will be functioning within the framework of the rules and regulations of the country. All types of business own their existence through the privileges guaranteed under the constitution of the country. The Indian Constitution incorporates a number of matters that are economically very significant and have far – reaching implications. The socio economic and political objectives of the Indian Republic and the basic guiding principles of State functioning have been clearly laid down in the preamble to the constitution, in the Fundamentals Rights and in the Directive Principles of state policy. The Constitution also outlines the economic powers and responsibilities of the various Governments and the State Government

LEARNING OBJECTIVES

After studying this unit, you will be able to;;

- describe the basic principles of our constitution

- discuss the concept of federal system of government
- explain the importance of directive principles of state policy
- analyse the fundamental rights and duties of the citizen
- examine the differences between fundamental rights and directive principles.

5.1 INTRODUCTION

Before knowing the feature of the Indian Constitution, it is essential to know about its preamble. The Constitution of every country in the world has its own preamble. The preamble reflects the views and the objectives of the constitution-makers and also the basic values of the country and the constitution. The makers of the constitution had a dream of an ideal society which was stated in the following

“We, the people of India, having solemnly resolved to constitute India into a Sovereign, Socialistic, Secular, Democratic, Republic and to secure for all its citizens, justice – Social, Economic and political; Liberty of thought, expression, belief, faith and worship; Equality of status and opportunity, and to promote among them all fraternity, assuring the dignity of the individual and the unity and integrity of the Nation”. The preamble as given above clearly states that our country is now sovereign in all matters. The ultimate source of all power is ‘the people.’

5.2 BASIC PRINCIPLES OF OUR CONSTITUTION

i) Sovereignty: This is the main feature of the Indian Constitution. India is completely an independent state now. We are not subordinate or slave to any country in external or internal matters. We, the Indians run our own government. Our government is now capable of making its own decision in internal and foreign affairs.

ii) Democracy: Democracy means a government which is run by representative who are elected on the basis of adult franchise. This means that each adult, man and women, elects a representative of his or her own choice. The representatives are elected after every five years. These representatives, together, form the government.

iii) Secularism: The State gives equal treatment to all religion. It does not favour any particular religion. The Constitution gives complete freedom to its citizens to practice and preach their own religion.

iv) Socialism: The achievement of socialism, based on economic and social equality, is the chief goal of our constitution. It provides equal opportunities in education, employment, justice etc., to all. Special facilities have been given to the backward and the downtrodden people.

The Directive principles have been incorporated for the establishment of a Welfare state. Economic disparities, especially, create unrest in the country; under such conditions the country cannot make any progress. Therefore, efforts have been made to create a society based on social and economic equality. Socialism is one of our national goals.

5.3 FEDERAL SYSTEM OF THE GOVERNMENT

The Federal system of the government is that system where powers of the Central Government and the State Government are well defined in the Constitution. Our Constitution sets up a federal system of the government. In our country, there are 27 state and 5 union territories. There is separate government at the Centre and in the states. The division of powers between the Central and the state Governments has been made according to the three lists in the Constitution.

i) The Union list: Railways, Posts and telegraph, armed forces, external affairs, etc., are some of the subjects included in this list.

ii) The State List:: The subjects of local important like the police, jails, education, agriculture, health, etc., are enumerated in this list.

iii) The Concurrent List: Both the parliament and the state legislatures can make laws on the subjects given in this list.

iv) Single Citizenship: Our constitution provides for a single citizenship of this country. The Citizen of each state is a citizen of India. We do not have the system of double citizenship in Indian. A person may be living in Madhya Pradesh or Maharashtra but he is called as the citizen of India.

v) The Parliamentary System: Like Britain, there is the parliamentary system of Government in India. Real Power is vested in the parliament. The Ministers in the Central Cabinet are members of the Parliament. The Prime Minister and other Ministers are answerable to the parliament for their actions.

5.4 THE DIRECTIVE PRINCIPLES OF THE STATE POLICY

To bring about economic and social welfare in the country, the Directive principles of the State policy have been stated in our Constitution. The purpose is to bring social equality in the country; special directions have been given for the uplift of the backward communication and weaker section of our society. There is a provision to make special laws for women. The Directive principle direct the Government to work for the social well-being, Society, economic and social prosperity of the nation. There is a Directive principle which aims at achieving free and compulsory education for all children up to the age of 14 years. The Directive principles also provide equal pay for equal work for both men and women.

5.5 THE FUNDAMENTAL RIGHTS AND DUTIES

The Fundamental Rights are defined in Part III of the Indian Constitution from article 12 to 35 and applied irrespective of race, place of birth, religion, caste, creed, gender, and equality of opportunity in matters of employment

The fundamental right is the necessary condition for the development of the personality of an individual. These help in promoting democratic values. There are six fundamental rights guaranteed in the constitution necessary for the development of the personality of the citizens.

Rights and duties are interrelated. One man's duty is another man's rights. Neglect of duties is curse for humanity and it hampers the growth of the society. When citizens forget their duties there is lawlessness in the society. Therefore, the proper balance should be maintained between rights and duties.

The Indian Constitution has guaranteed some important rights. Even the Parliament or the Legislative Assemblies cannot make any law which encroaches upon these rights. Any law which interferes with fundamental rights can be set aside by the Supreme Court. It is only during emergency that the fundamental rights can be suspended

Our constitution has guaranteed six types of right to the citizens:

i) Right to Equality: Our constitution gives equal treatment to all citizens. The State cannot discriminate on the basis of religion, caste, creed, sex, language, place of birth, etc. The state gives equal opportunities to all individuals, on the basis of abilities, in the fields of education, employment, profession and earning a livelihood. Untouchability has been abolished. Scheduled castes, scheduled tribes and other backward classes have been given special facilities. Due to their backwardness, some seats have been reserved for them in school, colleges and government service, so that they may come at par with other sections of society. All the titles awarded before Independent have been abolished. In free India such distinctions as 'Bharat Ratna' and 'Padmashri' are conferred for outstanding service to the country.

ii) Right to Freedom: Every citizen has the rights to read and write, speak, hold public meeting peacefully and form any association or union. A citizen is free to go to any part of the country and settle there. He can take up any job or trade anywhere in India. He is also free to acquire any property anywhere in the country.

iii) Right against Exploitation: The purpose of this right is to prevent any exploitation in the society. It is offense to buy or sell men, women and children. The constitution prohibits forced labour or 'beggar'. Nobody can be asked to work against his wishes. No child under the age of 14 years can be employed to work un any factor or mine.

iv) Right to Freedom of Religion: Every citizen in India has the freedom to practice his own religion. People of different religion have also the freedom to preach their religion in peaceful manner. They can also form religious association for religious purposes.

v) Cultural and Educational Rights: Every Indian citizen has the right to preserve his own language, script and culture. People in different parts of the country speak different languages. They take pride in their language and culture. They have the right to establish their own education institutions.

vi) Right to Constitutional Remedies: Each citizen has the right to approach to court in order to protect his fundamental rights. If fundamental rights are curtailed or taken away by any law enacted by the government, the citizen can approach the Supreme Court and Challenge the action of the Government. This is why the court have been described as the protectors of citizens' rights.

Fundamental Duties of our constitution

Our constitution was enforced on January 26, 1950. But nothing was said about the duties of the citizens in the Constitution. In order to make people conscious of their duties, the Constitution was amended in 1986 and the fundamental duties of the citizens were incorporate in it. These are as under:

i) To show respect to the Indian Constitution, the National Flag and the National Anthem.
ii) To have faith in the ideals of the national freedom movement.
iii) To protect the integrity and unity of the country.
iv) To defend and serve the country.
v) To develop a spirit and of goodwill and brotherhood.
vi) To inculcate a scientific attitude among people.
vii) To preserve ancient culture.
viii) To protect the property of the nation.
ix) To protect forest, lakes and wild-life.
x) To strive individually and collectively for the achievement of national goods.

There is a close relationship between fundamental rights and duties as enshrined in the constitution. The rights and duties are complementary to each other. We cannot think of the one without the other. The rights and duties are interrelated.

Directive Principles

An analysis of the Directive principles shows that elements of socialism, Gandhian principles and liberalism have been combined to get the best results out of these.

i) Socialist principles in the Directives: Directives relating to adequate means of livelihood, prevention of concentration of wealth, equal pay for equal work for both men and women, care of the health of children, right to education, work and employment, old age sickness and disablement benefit, a living wage, a decent standard of living, advancement of social and cultural opportunities, etc., go to show that in the long run, the state should strive to have socialistic principles implemented in our systems. Most of these Directives had been included in the list of fundamental Right in the former U.S.S.R.

ii) Gandhian Principles in the Directives: Directives relating to the steps to organize panchayats for self-government, promotion of cottage industries, prevention of slaughter of cows and calves and other mulch and draught animals, special care to promote the interest of weaker sections of the society, prohibition of the consumption of liquor and other intoxicating drinking as well as drugs which are injurious to health, etc., go to show the need for implementing Gandhian ideologies in our system.

iii) Examples of liberalism: Directive to secure for the citizens a uniform civil code, free and compulsory education for all, raising the level of nutrition, improvement of public health development of agriculture and animal husbandry on modern scientific lines, separation of judiciary from the executive, promotion of international peace and settlement of dispute by arbitration, provision of legal aid to the poor and protection of environment and also wildlife and forest, etc., speak a lot about the duties of the government.

5.6 DIFFERENCES BETWEEN FUNDAMENTAL RIGHTS AND DIRECTIVE PRINCIPLES

The Fundamental right are stated in part III of the Constitution and the directive Principles of State policy are indicated in part IV of the Constitution. The differences between the two are as follows:

- While Fundamental Rights constitute limitations upon the State actions, the Directive Principles are in nature of instruments of institution to the government of the day to certain things and to achieve certain ends by their actions.
- The Directives, however, require, to be implemented by legislation. In the absence of legislation implementing the policy laid down in a Directive, neither the State nor an individual can violate any existing law or legal right
- From the standpoint of the individual, the difference between the Fundamental Right and the Directive is that the former is a justifiable one, while the latter non-justifiable. In other words, the Courts are not competent to compel the government to carry out any Directive, while the fundamental rights can be enforced in the courts by the individuals.

For example, an unemployed person cannot sue the government in the court of law for getting employment under the Directive ‘Right to Work’ (Art. 41). On the other hand, if a person is discriminated on the basis of religion or caste or sex in giving employment, the aggrieved person can sue the government in a court of law under the Fundamental right which prohibit discrimination on religion and caste etc., A law which contravenes a Fundamental Right can be declared by the appropriate court to be void, but a law which is contrary to a Directive cannot be so held to be void. If there is any conflict between part III and part IV of the constitution, i.e., conflict between ‘Fundamental Rights’ and ‘Directive Principle’, the former will prevail in the courts. The Directive Principle of State policy has to conform to and run subsidiary to the chapter of Fundamental Rights.

5.7 CRITICISM OF THE DIRECTIVE PRINCIPLES

The Directive Principle of State Policy contained in part IV of the Constitution of India have been criticized on several ground. As the Directive Principle is not enforceable by the Courts, critics regard them as useless. They are supposed to be mere pious wishes with high sounding words which serve no purpose. This expression may serve to mislead the ignorant public and be used as a vote-catching device. They are described as superfluous because, every State strives to bring about the welfare of its people. Some regard them as meaningless, as there is no sense in Sovereign State giving directions to itself. Some of the principles are of doubtful validity. The directives of ‘Prohibit of liquor and intoxicating has not yet been fully realised, as it deprives the State Revenues. When there is huge unemployment in the State, the Article 41 of the Directive ‘Right to Work’ becomes rather ridiculous. These Directives have no ‘legal sanction' and these can be utilized by the whims and fancies of the politicians.

LET US SUM UP

The characteristics of the Indian constitution are highlighted in this unit. It explains the Federal System of Government, the Basic Rights and Responsibilities of Citizens, and the Directive Principles of the State Policy. The distinctions between fundamental rights and guiding principles are evident to us. Being an Indian citizen, not knowing the law is not an excuse. It gives an understanding of constitutional provisions fundamental rights and directive principles of state policy.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. The main feature of the Indian Constitution is_____________.

a) Sovereignty b) Socialism

c) Secularism d) Democracy

2. _____________ is the form of the government in which power is concentrated in one level of the government.

a) Federalism b) unitary form of government

c) a and b d) None of the above

3. The Directive Principle direct the Government to work for_______.

a) social well-being b) Society

c) Economic and social prosperity d) All the above

4. The Indian Constitution has guaranteed_____________types of right to the citizens

a) Four b) Five c) Six d) Seven

5. Usually, federalism has two levels of government state and ___________government.

a) Local Government b) District Government

c) Central Government d) All the above

GLOSSARY

Constitution	:	The Constitution of India is the supreme law of India. The document lays down the framework that demarcates fundamental political code, structure, procedures, powers, and duties of government institutions and sets out fundamental rights, directive principles, and the duties of citizens
Federal System	:	The Federal system of the government is that system where powers of the Central Government and the State Government are well defined in the Constitution
Democracy	:	Democracy means a government which is run by representative who are elected on the basis of adult franchise. This means that each adult, man and women, elects a representative of his or her own choice.
Secularism	:	The State gives equal treatment to all religion. It does not favour any particular religion. The Constitution gives complete freedom to its citizens to practice and preach their own religion
Socialism	:	It provides equal opportunities in education, employment, justice etc., to all. Special facilities have been given to the backward and the downtrodden people
Directive Principles	:	To bring about economic and social welfare in the country, the Directive principles of the State policy have been stated in our Constitution
Fundamental Rights	:	The fundamental right is the necessary condition for the development of the personality of an individual. These help in promoting democratic values. There are six fundamental rights guaranteed in the constitution necessary for the development of the personality of the citizens.

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ANSWER TO CHECK YOUR PROGRESS

1.a) 2.a) 3.d) 4. c) 5. c)

UNIT 6

BUSINESS AND GOVERNMENT

OVERVIEW

Business is an important in society. It may be for the supply of goods and services, creation of employment opportunities; offer of better quality of life; or contribution to the economic growth of a country; the role of business is crucial. There is no country in the world where government of the land does not interfere, in one form or the other, in its economic activities. Which the state control of economy is a universal phenomenon, the extent & nature of the control vary widely between nations depending upon the nature & storage of development of the economy, the behaviors of the private sector, the political philosophy etc. The two most powerful institutions in the society today are business and government where they meet on common ground – amicably or otherwise –together they determine public policy, both foreign &domestic, for a nation. Government regulation of the business may cover a broad spectrum extending from entry into business to final results of a business.

LEARNING OBJECTIVES

After studying this unit, you will be able to;

- explain the reasons for intervention of state government in business

- describe responsibilities of business towards government
- delineate economic roles of government in business.

6.1 INTRODUCTION

Function of the state varies from basic minimum requirements to active participation in several other sectors. The basic functions include the pure public goods such as the provision of property rights, macroeconomic stability, control of infectious diseases, safe water, roads, and protection of the destitute in many countries the state is not even providing these. Recent reforms have emphasized economic fundamentals. But social and institutional (including legal) fundamentals are equally important to avoid social disruption and ensure sustained development.

Going beyond these basic services are the intermediate functions, such as management of externalities (Pollution, for example), regulation of monopolies, and the provision of social insurance (pensions, unemployment benefits). Here, too, the government cannot choose whether, but only how best to intervene, and government can work in partnership with market and civil society to ensure that these public goods are provided. States with strong capability can take on more – activist functions, dealing with the problem of missing markets by helping coordination. East Asia's experience has renewed interest in the state's role in promoting markets through active industrial and financial policy.

6.2 REASONS FOR INTERVENTION BY STATE GOVERNMENT

i) The faster a country moves towards economic development, the greater has to be the role of the state.
ii) To ensure speedy & balanced development of the economy with the least wastage of resources
iii) Ours being a socialist society, the government is compelled to enter directly into industrial & commercial activities.
iv) The function of government which was originally limited to the maintenance of law and order has considerably expanded.
v) State participation is necessary to lay a strong base for future development of Industry and Commerce.
vi) Failure of market invites government intervention in an economy

6.3 RESPONSIBILITIES OF BUSINESS TOWARDS GOVERNMENT

The Government has certain definite expectation from business. The business houses are expected to fulfill the following responsibilities: -

i) Regular Payment of Taxes: Taxes are a major source of revenue for the Government. It is the responsibility of every businessman to pay regular taxes on sales, inputs and income. Moreover, it is the duty of businessman, as an employer, to deduct the income tax from the salaries of the employees and remit the same to the government treasury.

ii) Voluntary Programmes: Another expectation of the Government from the business is that the business firms should cooperate with Government agencies on voluntary basis in connection with various programmes like:

- Sponsoring social welfare progarmme
- Cultural growth
- Environmental preservation
- Promoting education
- Population control measurers
- Assistance in connection with drought relief etc.

iii) Providing Information: It is another responsibility of the business houses to give feedback information to the Government on the decisions taken by the political leaders. Business has necessary knowledge and experience. They can, therefore, place before the decision makers the facts and problems and argue for the modification or changes. This can be done by them individually or collectively.

iv) Government Contracts: Due to privatisation of the economy a number of Government contract are executed by private business houses. Many business houses projects according to required specification and standards.

v) Providing Services to the Government: Sometimes, some influential and competent businessmen are included in the Advisory boards constituted by the abroad for exploring trade and industry prospectus.

vi) Corporate Contributions to Political Activities: The business is involved in the political activities in the following ways:

- Making monetary contributions to political parties particularly at the time of elections.
- To contest elections as independents or on party tickets.
- Through lobbying this refers to the behavior after the election and is concerned with securing legislation in favor of business.
- It is the responsibility of the business houses to make sure that their political involvement provides an additional safeguard against the authoritarian potential of a mass society.

6.4 ECONOMIC ROLES OF GOVERNMENT IN BUSINESS

Government normally plays four important roles in an economy, for shaping the business environment. They are as follows:

1. Regulator Role
2. Promoter Role
3. Entrepreneurial Role
4. Planner Role

The nature and extent of the above cited roles of the government will vary depending upon a given situation. We shall discuss about those at length.

1. REGULATOR ROLE

Government Regulation of the business may cover a broad spectrum extending from entry into business to final results of a business.

Types of government regulation of the economy may be broadly divided into:

i) Formal & informal controls
ii) Inducive and Coercive controls
iii) Direct & indirect controls

i) Formal and Informal Controls: Formal control are usually those emanating from legislation, as for, example, the Industries Act, 1957, the companies Act 1956 and MRTP Act 1969.

Informal control refers to the controls which various groups impose upon themselves out of need & custom.

ii) Coercive and Inducive Controls: Coercive regulations require performance of certain actions or reframing from others in order to avoid penalties. For instance, taxes must be paid or fine or imprisonment may result.

Inducive controls hold out a promise of reward for compliance with the desired lines of action. For example, subsides may be granted to stimulate certain activities.

iii) Direct & Indirect Controls: Businessmen prefer indirect controls to direct regulation. When government fixes prices of certain products or services, it is an example of direct control.

The variation of corporation of corporate income tax to influence economic activity is an indirect control measure.

2. PROMOTER ROLE

The promotional role of the government is very important in developing countries and also in developed countries. In developing countries, there will be deplorable dearth of entrepreneurial skill and other infrastructural facilities. Hence, the promotional role of the government by providing finance to industry, creating the required minimum infrastructural facilities for industrial growth and development and also for further investment assumes important. For example, our government has identified certain backward areas as ‘No Industry Districts’. To promote development of such areas, Government provides subsidies and tax holiday to attract investment in backward areas. The Government is assisting the development of small – scale industries through District Industrial Centers.

In development countries, the government has to develop infrastructures, Such as power, transport, finance, marketing, institutions for training and guidance and other promotional activities. This includes promotional role by the government in the risk- prone sectors. Even in USA, the government undertake promotional role and this promotional role is not a small one.

3. ENTREPRENEURIAL ROLE

In many countries the State, by establishing its own industries has undertaken the task of entrepreneurial role. India is a standing example about this. Number of factors is responsible for the government to take up this role and operate business enterprises. Dearth of private entrepreneurship unprofitable sectors or neglect of some sectors by the private business, absence of adequate competition and the resultant exploitation of consumers and socio-political ideologies of the State are all the contributing causes for the State to start the business and bear the risks. Generally, private investors are solely guided by profit motive they will avert any enterprise involving high risks. Hence, they will not enter in areas of low returns and also public utility services where the investments are very heavy and the returns very meager. But as ‘Social entrepreneur’ the government does not hesitate to take them up.

4. PLANNER ROLE

More of the modern State are welfare-State, undertaking plethora of responsibilities. Besides protecting the people, the State has to fulfill all economic requirement of the people and their aspirations. The Government is expected to bring about all-round prosperity. In any economy the resources would be very much limited and the requirement of the people would be too many, the scarcity of resources and the multiplicity of wants would lead to the question of choice and priorities. Hence, planning has become an integral part of the government in conserving the resources and utilizing them so as to achieve maximum satisfaction for the people.

In its role as a planner, the government indicates the various priorities and makes sectoral allocations. Mixed economies are democratically planned and they have to manage the economic and business activities through the exercise of planning.

The idea of economic planning can be traced to three different sources. They are;

i) Rationalisation of Resources
ii) Socialisation of Resources
iii) Nationalisation of Resources.

i) Rationalisation of Resources: Since the resources of the economy are much limited, they have to be utilised in a ratioanlised way or in an optimal manner so as to achieve optimum satisfaction for the society. In other words, the planned economy is a rational economy which attempts to secure the maximum return with minimum wastage of productive resources.

ii) Socialisation of Resources: Nationalisation concept connotes that a planned economy is a powerful economy. The nationalists want to use planning as a weapon to strengthen the country, not only economically, but also politically. This concept has a tinge of totalitarian principle. Fascism, Nazism and communism resorted to planning more to achieve political power.

iii) Nationalisation of Resources: Implementation of the plan is the roughest part of the planning process. If the execution has not been done properly and efficiently, the whole plan will fail. Even a well formulated plan may miserably fail due to poor and inefficient execution. Perhaps this is the case with Indian planning, through Five-Year plans, and Lewis remarked: "Indian is better planners than doers". This is worth remembering. Formulation of plan is only a promise, whereas the execution is the actual performance of the plan.

LET US SUM UP

This unit gives clear understanding of the government four key responsibilities towards the business and society. These positions include regulator role, promoter role, entrepreneur role r, and planner role, which help to shape the business environment. It is also understood that the government has a significant influence on all aspects of business. It is clear that businesses have obligations to the government, including paying taxes, providing the authorities with the necessary information, and making a positive impact on society.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. Macro Environments of business includes___________.

a) Political and Government factors b) Economic factors

c) Demographic factors d) All the above

2. Types of Government regulations of the economy include__________.

a) Formal and Informal controls b) Inductive and Coercive controls

c) Direct and Indirect controls d) All the above

3. The wages of Industrial workers are regulated by___________.

a) Government b) Public

c) Employees d) Consumers

4. The Government normally play____________important roles in an economy.

a) Two b) Three c) Four d) Five

5. The idea of economic planning can be traced to sources are_.

a) Rationalisation of Resources b) Socialisation of Resources

c) Nationalisation of Resources d) All the above

GLOSSARY

Coercive Regulations	:	Coercive regulations or control require performance of certain actions or reframing from others in order to avoid penalties. For instance, taxes must be paid or fine or imprisonment may result.
Inductive Control	:	Inductive controls hold out a promise of reward for compliance with the desired lines of action. For example, subsides may be granted to stimulate certain activities.
Rationalisation of Resources	:	The resources of the economy are much limited, they have to be utilised in a ratioanlised way or in an optimal manner so as to achieve optimum satisfaction.
Fascism	:	Fascism is generally defined as a political movement that embraces far-right nationalism and the forceful suppression of any opposition, all overseen by an authoritarian government.

Nazism	**:**	Nazi ideology was synonymous with Hitler's worldview. According to this there was no equality between people, but only a racial hierarchy. In this view blond, blue-eyed, Nordic German Aryans were at the top, while Jews were located at the lowest rung.
Totalitarianism	**:**	Totalitarianism is a form of government that attempts to assert total control over the lives of its citizens. It is characterized by strong central rule that attempts to control and direct all aspects of individual life through coercion and repression.

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ANSWER TO CHECK YOUR PROGRESS

1.d) 2. d) 3. a) 4.c) 5.d)

UNIT 7

LEGAL ENVIRONMENT

OVERVIEW

The Political, Legal, and Regulatory Environment can be very influential insofar as the way you carry out business activities. Organisations need to comply with each country's laws and regulations in which they do business. Rules and regulations can change frequently and are sometimes ambiguous; they also depend on the political culture in a country. Many industries are heavily regulated around the world, such as banking and finance, utility, transportation, oil and gas, and mining. The regulations will have a major influence on business model. Moreover, the legal system can differ from one country to the other (e.g., civil law, common law, religious law) and often requires very specialized expertise. In India legal environment of business affected according to the ideology of the government

LEARNING OBJECTIVES

After studying this unit, you will be able to;

- explain legal systems in business
- various laws related to business in India.

7.1 INTODUCTION

Legal environment acts as an important factor for setting up or running any business activities by an individual or any organisation in a particular country. The legal environment in one country is different from another country. Legal environment decides the ways of how business activities of any particular country are able to flourish or may get constrained by the laws of the nation. It also influences in estimating the useful economic life of an intangible asset. Legal environment of a business includes various legislations enacted, amended or repealed by the Government, Administrative Orders proclaimed by Government Authorities, etc The legal environment in India includes various laws regulating business activities like Companies Act 2013, Consumer Protection Act, 2019 GST act, 2007and many other such legislations, policies relating to licensing and approvals, foreign trade etc.

7.2 CONCEPT OF POLITICAL SYSTEM

The political system prevailing in a country directs and controls the business activities of that country. A political system which is stable, dynamic and assures personal security to the citizens is primary factor for growth of any business. Two basic political philosophies are in existence all over the world, viz., democracy and totalitarianism. In its pure sense, democracy refers to a political arrangement in which supreme power is vested in the people. Democracy may manifest itself n any of two fundamental manners. If each individual is given the right to rule and vote on every matter, the result is pure democracy which is not, however, workable in a complex society with a large constituency. Hence, the republican forms of organisation follow whereby the public, in a democratic manner, elect their representatives who do ruling. In totalitarianism, also called authoritarianism, individual freedom is completely subordinated to the power of authority of the state and concentrated in the hands of one person or in a small group which is not constitutionally accountable to the people. Societies ruled by a pressure clique - political, economy or military - or by a dictator plus most oligarchies and monarchies belong to this category. The doctrine of fascism and erstwhile Russian Communism Russian Communism are example of totalitarianism. India is a democratic country.

7.3 POLITICAL SYSTEM COMPRISES THREE VITAL INSTITUTIONS

i) Legislature
ii) Executive or Government
iii) Judiciary

i) Legislature: Out of three, legislature is most powerful political institution vested with such powers as policy making, law-makings, budget approving, executive control and acting as mirror of public opinion. The influence of legislature on business is considerable. It decides such vital aspects as the type of business activities, the country should have, who should own them, what should be their size of operation, what should happen to their earnings and other related factors.

ii) Government as Executive: Also called the 'state' the term government refers to "the centre of political authority having the power to govern those it serves". For business consideration, we should know what government's responsibilities to business are. Specifically, government's responsibilities towards business are as follows:

- Establishment and enforcement of law
- Maintenance of order
- Money and credit
- Orderly growth
- Infrastructure
- Information
- Assistance to small industries
- Transfer of technology
- Tariffs and Quotas

iii) Judiciary: The third political institution is judiciary. Judiciary determines the manner in which the work of executives has been fulfilled. It settles the relationship between private citizens, on one hand, and between citizens and the government upon the other.

The power of the judiciary is of dual type:

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

7.4 MEANING OF LEGAL ENVIRONMENT

The legal environment of business is defined as: the attitude of the government toward business, the historical development of this attitude; current trends of public control in taxation, regulation of commerce and competition; freedom of contract, antitrust legislation and its relationship to marketing, mergers and Governments want to encourage business activity, but they also need to pass laws and put in place rules and regulations to control business activity and avoid undesirable outcomes or negative externalities. They may pass regulations concerning the employment of people, environmental impact or perhaps constraints to ensure that all advertising is legal, decent and truthful.

7.5 SCOPE AND OBJECTIVES OF LEGAL ENVIRONMENT

i) Internal Security: The state governments have to maintain the internal security, law and order in the state as per our constitutional amendment. Internal security is managed through state police.

ii) Public Order: States have jurisdiction over police and public order in order to maintain peace among the public.

iii) Education: Providing a public education system, maintaining school buildings and colleges, employment of teachers, providing help to under privileged students all come under the education department of the state.

iv) Agriculture: The state governments have to provide support for farmers, funds for best farming practices, disease prevention and aid during disasters such as floods or droughts.

v) Finances: Every business need finance to run the business successfully. Business government covers the various financial aspects of the state legislature financial powers of the state, which include authorisation of all expenditure, taxation and borrowing by the state government. State legislature provides the power to originate money bills and it has control over taxes on entertainment and wealth, and sales tax.

vi) Reservation of Bills: The legal environment covers the legislative powers of the state governor and the situations wherein he may reserve any bill for the consideration of the President.

vii) Transport: State government runs the rains, trams, bus and ferry services and other public transportation in the cities and towns of the States.

viii) Water Supply: It details about the rules and regulations of **w**ater supply to cities and towns for drinking, including irrigation for farmers, and states the responsibility of the State governments.

ix) Budget: The Legislative procedures of the State Government are to make budget for state.

x) Allocation of Funds: Procedural legislative powers to give funds to all its organisations like Zila Parishad, corporation, and other departments.

7.6 IMPACT OF LEGAL ENVIRONMENT ON BUSINESS

The legal environment therefore impacts on all business behaviour and can be split into a number of different areas:

i) **Employment legislation** - rules, regulations and laws concerning the employment of people.

ii) **Environmental legislation** - laws, rules and regulations concerning the environmental impact that then operations of firms create.

iii) **Consumer law** - businesses sell to consumers and it is important that consumers have protection to ensure they are not misled or treated unfairly by firms.

iv) **Competition law** - competition is a healthy way to ensure that prices are kept down and that businesses innovate. Without competition firms may be in a position to exploit consumers and so governments often legislate to try to ensure competition is fair and to prevent the development of monopolies.

v) **Information or Reporting law** - Governments often legislate to ensure that the information that firms provide is accurate and reflects the true state ('a true and fair view') of the business. These types of rules and regulations may include accounting regulations/standards to ensure firms represent their financial position accurately and ensure that firms do not keep information on consumers that they are not entitled to retain.

vi) **Social welfare laws** - here government attempts to promote the consumption of merit goods, which enhance human welfare such as education and health services, and discourages or prevents the consumption of demerit goods such as tobacco, and petrol. Demerit goods result in higher social costs.

Legal environment affecting the business environment in India: The legal environment of business is defined as the framework of rules and regulations, bylaws and various legislations that govern the day to day working of the business. The legal environment dominates the business environment of a country. The legislature of the country, being the law-making authority frames the laws and the executives ensures that those rules are followed and if these rules are not properly implemented, the judiciary of the country comes into the picture in order to take necessary actions by imposing fines and penalties.

7.7 VARIOUS LAWS THAT GOVERNS THE BUSINESS ENVIRONMENT IN INDIA

i) Business laws
ii) Corporate laws
iii) Indian contract act 1872
iv) Negotiable Instrument Act 1881

v) Sale of goods act 1930
vi) Indian Partnership Act 1932
vii) Monopolies and Restrictive Trade Practices Act 1969
viii) Air (prevention and control of pollution) Act 1981)
ix) Environment Protection Act 1986
x) Consumer Protection Act 1986
xi) Competition Act 2002
xii) The national Green Tribunal Act 2010

i) Business law: Business laws of the company are also known as mercantile law. It helps in regulating the day-to-day business transactions.

ii) Corporate Laws: Corporate laws are the rules and regulations that govern, the formation, registration, share capital, board meetings, minutes, dissolution, winding up etc.,

Features of Corporate Laws

- It brought in the mandatory appointment of women directors on board.
- It brought in the clause of Corporate Social responsibility from a certain class of companies.
- More powers have been given to the shareholders of the company
- The act introduced national company law board tribunal and national company appellate tribunal
- Rules were amended to enable the fast-track mergers of the companies.

iii) Indian Contract Act 1872: It contains all the rules and regulations which help the business (as well as non-business) is entering into various agreements and contracts.

Features of Contract

- There must be two parties and all essential elements must present in the contract.
- A valid contract is enforceable by law.
- There must be an intention of the parties to enter into the contract and the intention should not violate rules of the country
- The parties must be competent to perform the contract
- The contract must be certain in nature and it must be possible to perform. There must be lawful consideration for fulfilling the contract.

iv) Negotiable Instrument Act 1881: Negotiable Instruments Act, 1881 is a law relating to all negotiable instruments such as promissory notes, bills of exchange and cheques. The word "negotiable instrument" means a document which is transferable from one person to another. If the instrument is payable to order, the property in the instrument passes by endorsement and if the instrument is payable to the bearer, the property in the instrument is passes by delivery. Individual or any person, taking an instrument bonafide and for value is known as a holder in due course, The holder in the due course has a right to sue or claim upon a negotiable instrument in his or her own name for the recovery of the amount. Also, he need not give notice to transfer to the party liable on the instrument to pay. There are certain presumptions which apply to all negotiable instruments until and unless contrary is proved. These presumptions re consideration, date, time of acceptance, time of transfer, the order of endorsements, stamp, and holder presumed to be holder in the due course, proof of protest.

v) Sale of Goods Act 1930: Sale of goods act constitutes one of the most important types of contracts under the law in India. All the contracts or agreements related to the sale of goods are governed under this act.

- There must be two different parties to a contract of sale i.e there must be a buyer and seller
- There must be transfer of property in order to complete the process of sale. Here transfer of property means transfer of ownership right of the property,

The main subject of the contract must be goods as per section 2 (7) “Goods means every kind of movable property other than actionable claims and money; and includes stock and shares, growing crops, grass, and things attached to or forming part of the land which is agreed to be severed before sale or under the contract of sale. There must be consideration for the sale of or transfer of property. The consideration must be in monetary terms.

vi) Indian Partnership Act 1932: The Indian Partnership Act 1932 defines a partnership as a relation between two or more persons who agree to share the profits of a business run by them all or by one or more persons acting for them all.

The essential characteristics of the act are:

- There must be at least two persons who are competent to form partnership.
- The partnership relation is contractual in nature. It arises from the contract and not from the status of the partners,

- The agreement must be express i.e., it must be written or oral or implied.
- The agreement may be for a fixed period of time or for the execution of the particular venture.
- The partnership agreement must have all essential elements of a valid contract.
- The object of partnership must be to make profits.
- Profits must be distributed among the partners in an agreed ratio.

vii) Monopolies and Restrictive Trade Practices Act 1969: The MRTP Act aims to prevent the concentration of economic power in the hands of few groups of people. This provides for control of monopolies, prevention of unfair trade practices.

Main aim of the act is as follows:

- Control the monopolies
- Prohibit unfair trade practices
- Prohibit restrictive trade practices
- Prohibit monopolistic trade practices

Water Prevention and Control of Pollution Act 1974

This act was enacted to provide for prevention and control water pollution. It also provides the establishment boards for prevention and control of water pollution. The act prohibits the industries and manufacturing units from discharging of pollutants into water bodies beyond given standard, and also lays downs penalties for non- compliance. It set up CPCBs, which further lays down the standards for the control and prevention of water pollution.

viii) Air Prevention and Control of Air Pollution Act 1981: It was enacted to counter the problem associated with air pollution, it set standards to combat air pollution and prohibiting the use of substances and fossil fuels that give rise to air pollution • It provides for the enactment and establishment of the boards at centre as well at state levels. “The act empowers the state governments in consultation with the SPCB’s and can declare any region within the state as air pollution control region. Under this the establishment or operation of any industrial plant in the pollution control area require permission form SPCB’s. SPCB’s are also required to test the quality of air in air pollution control areas, also inspect air pollution control equipment and manufacturing processes.

ix) The Environment Protection Act 1986: The main aim of the act is to protect the environment and bring sustainable environment. It provides the framework for planning and implementing the long-term requirements of environment safety and lays effective guidelines that threaten the environment.

Under this act the central government has the power to take necessary to develop and protect the quality of the environment. It set standards for emissions and discharges the pollution in the atmosphere and it give regulations for the location of the industries, manages the hazardous waste and protects the public health. It issues the notification from time to time for the protection of the ecological sensitive areas and other reserve areas.

x) Consumer Protection Act 1986: This act was enacted for the protection of the consumers in India. It has the mechanism for the redressal of the grievances of the consumers.

The Features of Consumer protection Act are as follows

- It applies to all goods and services until and unless the union government exempts it.
- It covers all public, private and co-operative sectors
- Provisions are compensatory in nature.
- It educates consumer against exploitation • It provides justice to aggrieved customers.

xi) Competition Act 2002: This act was enacted for the economic development of the country, for the establishment of the Commission to prevent practices that have an adverse effect of the competition in order to promote sustainable competition in markets, to protect the interest of the consumers and to ensure freedom of trade in India.

Objectives of the Act

- To ensure freedom of trade in the market
- To prevent the domination of the big players in the market.
- To promote healthy competition in the market.
- To protect the interest of the consumer by providing them with good products and services at reasonable prices.
- To prevent the practices that may bring an adverse impact on competition in the Indian market. Environmental laws Environmental Laws are those laws that enable the parliament with the need for protection and motive of conservation of the environment.

xii) The National Green Tribunal Act 2010: This act provides for setting up of national Green Tribunal which will expeditiously disposes of cases relating to environmental protection and conservation of forest resources and other natural resources.

LET US SUM UP

This unit provides a thorough explanation of the many laws that the government has periodically passed to control commerce. Business laws, corporate laws, environmental laws, the Indian Contract Act of 1872, the Negotiable Instruments Act of 1881, the Sale of Goods Act of 1930, the Indian Partnership Act of 1932, the Monopolies and Restrictive Trade Practices Act of 1969, and the Air (prevention and control of pollution) Act of 1981, Companies Act of 2013 are among the various laws.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. Under which of the following business environment does the industry is operating___________.

a) Social Environment b) Political Environment

c) Technological Environment d) Legal Environment

2. Which one of the following is the agreement that is enforceable by law?

a) Contract b) An Agreement

c) Consideration d) Acceptance

3. How many parties are there to a Promissory Note?

a) Two Parties b) One Party

c) Four Parties d) Three Parties

4. Consumer Protection Act is applicable to___________.

a) Immovable goods b) Movable goods

c) Specific goods and Services d) All Goods and Services

5. The Environment Protection Act was passed in___________.

a) 1984 b) 1986 c) 1981 d) 1980

GLOSSARY

Legislature : Legislature is most powerful political institution vested with such powers as policy making, law-makings, budget approving, executive control and acting as mirror of public opinion. The

		influence of legislature on business is considerable.
Business laws	**:**	Business laws of the company are also known as mercantile law. It helps in regulating the day-to-day business transactions
Corporate laws	**:**	Corporate laws are the rules and regulations that govern, the formation, registration, share capital, board meetings, minutes, dissolution, winding up etc.
Negotiable Instrument Act	**:**	It is a law concerning all the negotiable instruments i.e., Promissory notes, Bills of Exchange and Cheques.
MRTP Act	**:**	The MRTP Act aims to prevent the concentration of economic power in the hands of few groups of people. This provides for control of monopolies, prevention of unfair trade practices
Consumer protection Act	**:**	This act was enacted for the protection of the consumers in India. It has the mechanism for the redressal of the grievances of the consumers.
Environment Protection Act	**:**	The main aim of the act is to protect the environment and bring sustainable environment. It provides the framework for planning and implementing the long-term requirements of environment safety and lays effective guidelines that threaten the environment
Competition Act	**:**	This act was enacted for the economic development of the country, for the establishment of the Commission to prevent practices that have an adverse effect of the competition in order to promote sustainable competition in markets, to protect the interest of the consumers and to ensure freedom of trade in India.

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ANSWER TO CHECK YOUR PROGRESS

1.d) 2.a) 3.c) 4. d) 5.b)

BLOCK -3

Unit 8 : Demographic Environment

Unit 9 : Culture and Business

Unit 10: Social Responsibility of Business

UNIT 8

DEMOGRAPHIC ENVIRONMENT

Overview

The demographic environment refers to the study of the characteristics of human populations, such as their age, gender, race, education level, income, occupation, and geographic location. This information is used to understand trends and patterns in population growth, migration, and distribution, as well as to identify changes in social and economic structures.

The study of the demographic environment is important because it can help businesses, governments, and other organisations make informed decisions about their operations and policies. One of the most significant demographic trends in recent years has been population aging. As people live longer and birth rates decline, the proportion of older adults in the population is increasing. This has significant implications for health care, retirement planning, and social welfare programs.

Overall, the demographic environment is a complex and constantly changing field of study, with important implications for many areas of society. By understanding the characteristics of human populations, we can make more informed decisions about how to build a more equitable and sustainable future.

LEARNING OBJECTIVES

After studying this unit, you will be able to;

- define the meaning of demographic environment
- explain the important of demographic environment
- define the concept of a falling birth rate and describe the factors that contribute to it
- describe the migration and ethnic aspects.

8.1 INTRODUCTION

The demographic environment refers to the study and analysis of the characteristics of human populations, such as age, gender, race, education level, income, occupation, and geographic location. It is an important aspect of environmental analysis that helps businesses, governments, and other organisations understand population trends and patterns, which in turn can inform decision-making related to marketing strategies, resource allocation, and policy development. The demographic environment is constantly changing and has significant implications for various areas of society, including social welfare, healthcare, and education.

8.2 IMPORTANCE OF DEMOGRAPHIC ENVIRONMENT

It is conventionally said that Management is Men, Material, Machinery and Money. Even if all the other Ms are excellent, it would not be of use unless the Men is the right one (in terms of quality, potential, motivation and commitment etc.)

Market is people in the sense that the demand depends on the people and their characteristics – the number, income levels, tastes and preferences, beliefs, attitudes and sentiments and a host of other demographic factors. No wonder, demography is an important basis of market segmentation.

Important demographic bases of market segmentation include the following:

- Age structure
- Gender
- Income distribution
- Family size
- Family life cycle (For example: young, single: young, married, no children; young married with children …….)
- Occupation
- Education

- Social class
- Religion
- Race
- Nationality

The demographic environment differs from country to country and from place to place within the same country or region. Further, it may change significantly over time. Peter Drucker, who emphasizes the tremendous economic and business implications of demographic changes, suggests that any strategy, that is any commitment of present resources to the future expectations, has to start out with demographics.

Demographic factors such as size of the population, population growth rates, age composition, ethnic composition, density of population, rural-urban distribution, family size, nature of the family, income levels etc. have very significant implications for business.

Population Size

The size of the population is an important determinant of demand for many products. There are countries with less than a lakh of people on the one hand and those with over a thousand million on the other hand.

One of the important objectives of the formation of the European Union (EU) was to bring about a single market that compares, in terms of the number of consumers, to that of USA and Japan.

Poor countries with small population are generally not attractive for business. However, even such countries may hold out opportunities for some companies. As these markets may not be of interest for large companies, small firms may find promising niches in these markets.

Advanced countries, particularly with large population, are generally attractive markets. The major part of the international trade and foreign investments naturally take place between these nations. Because of the large potential of these markets, competition is generally strong in them.

8.3 FALLING BIRTH RATE AND CHANGING AGE STRUCTURE

True, there has been an explosive growth of the global population, particularly in the developing countries. The universal trend now, however, is fall in birth rates, although the total population is still growing at over one per cent annually. Developing countries are also experiencing significant decline in the population growth rates. In developed countries, the fall in the birth rate is so steep that the population size would shrink drastically.

Because of the declining birth rate, population is already peaking in a number of countries. The collapse of population size has serious implications for business.

The declining birth rate poses a problem for many businesses. Because of the decline in the birth rates and the consequent fall in the size of the baby population, the market for baby products has shrunk. This has prompted some companies, such as Johnson and Johnson, to reposition their products (originally introduced as baby products) and to pay more importance to international business.

The declining birth rate has, however, been a boon to certain industries. For example, industries such as hotels, airlines and restaurants have benefited from the fact that young childless couples have more time and income for travel and dining out. Small families have also similar advantages when compared with large families.

It is obvious that business should necessarily ponder over whether the falling birth rate and the shrinkage in the number of young people—and especially of people under eighteen, that is, babies, children and teenagers—is a threat or an opportunity.

According to Drucker, the most important single new certainty about future is the collapsing birth rate in the developed world, which he describes as “national suicide” He points out that in Western and Central Europe and in Japan, the birth rate has already fallen well below the rate needed to reproduce the population.

That is, below 2.1 live births for women of reproductive age. In some of Italy’s richest regions, for example, in Bologna, the birth rate by the year 1999 had fallen to 0.8; in Japan to 1.3. In fact, Japan and all of Southern Europe- Portugal, Spain, Southern France, Italy, Greece is drifting toward collective national suicide by the end of the 21st century. By then Italy’s population, for instance, now 60 million-might be down to 20 or 22 million; Japan’s population—now 125 million-might be down to 50 or 55 million. But even in Western and Northern Europe the birth rates are down to 1.5 and falling. But in the United States, too, the birth rate is now below 2 and going down steadily. And it is as high as it is only because of the large number of recent immigrants who still, for the first generation, tend to retain the high birth rates of their country of origin for example, Mexico.2

As Drucker points out, for a business that makes its living making goods for small children, the collapsing birth rate may be an opportunity. It is conceivable that having fewer children means that the child becomes more and more precious and that a larger share of the disposable income is spent on it. This apparently has already happened in China where a majority of families have only one child. Many families, there, despite their poverty, apparently spend more on the single child than they used to spend on three or four children. There are signs in other countries like Germany, Italy and even in the United States of similar developments.3

Although birth rates have fallen in developing countries, the population growth rates are still very high. This coupled with a steady increase in income drives fast the growth of the markets of a number of developing economies

When the population is very large, even if the country is generally poor, there could be a sizeable market even for those goods and services which are regarded luxuries in these countries. For example, if just five per cent of the Indian population is well to do, the absolute number (more than 50 million) is larger than the total population of many of the high-income economies.

High population growth rate also implies an enormous increase in the labour supply. When the Western countries experienced industrial revolution, the population growth was comparatively slow. Labour shortage and rising wages encouraged the growth of labour- intensive methods of production. Capital-intensive technologies, automation, and even rationalisation, are opposed by labour, and many sociologists, politicians and economists in developing countries. Cheap labour and a growing market have encouraged many multinationals to invest in developing countries. Many companies in the developed countries have relocated their production facilities, wholly or partially, in the developing countries to reduce the labour costs.

The problems of developing countries due to the population explosion also indicate the enormous scope for several industries. A very significant share of the Indian population is below the poverty line. Although these people, who do not have sufficient income even to meet the bare minimum basic necessities of life, do not come within the market for a large variety of goods and services, the existence of such a large size of poor population has a lot of other implications. To solve the basic problems, the additional number of children to be educated, the additional number of people to be provided with medical care, water supply etc. during one Five Year Plan in India are more than what most nations have done over centuries. While it is a formidable national challenge, it also indicates enormous business opportunities.

The occupational and spatial mobilities of population too have implications for business. If labour is very mobile between regions and occupations, labour problems are likely to be less than would otherwise be the case.

MOST POPULOUS NATIONS AND INDIA

Share (%) of Ten Most Populous Countries in World Population

China	19.4
India	17.5
USA	4.5
Indonesia	3.4
Brazil	2.8
Pakistan	2.7
Bangladesh	2.4
Nigeria	2.3
Russia Federal	2.0
Japan	1.9
Others	41.2

Growth of Population of India

Census year	Population (Million)
1901	238.40
1911	252.09
1921	251.32
1931	278.98
1941	318.66
1951	361.09
1961	439.23
1971	548.16
1981	683.33
1991	846.42
2001	1028.74
2011	1210.19
2021(projection)	1400.00

Source: Marketriser.com

If the labour is highly heterogeneous in respect of language, religion and caste, ethnicity etc., personnel management is likely to become a more complex task. A highly heterogeneous population with its varied tastes, preferences, beliefs temperaments etc. give rise to differing demand patterns and calls for differing marketing strategies.

The falling birth rate and rising longevity will significantly alter the age distribution within the population. The proportion of aged in the total population will go up. For example, of those 20-odd million Italians by the year 2080, a very small number will be under fifteen, and a very large number—at least one-third of the population—well above sixty. In Japan, the disproportion between younger people and people above any traditional retirement age will be equally great if not greater. In the United States, the young population is already growing much more slowly than the older population, past traditional retirement. Still, up to the year 2015 or so, the number of young people will still be growing in absolute numbers in the United States. But then it is likely to go down and quite rapidly. The share of old in the total population will increase in the future in almost every nation.

The changes in the age distribution have a lot of implications for business. Several pharmaceutical companies, for instance, are paying a lot attention to the potential requirements of the aged population.

The increasing proportion of the aged would have implications for the Government. It may increase the welfare burden of the governments.

According to Drucker, the collapsing birth rates will have the following implications.

1. For the next twenty or thirty years, demographics will dominate the politics of all developed countries. And they will inevitably be politics of great turbulence. Important issues include the retirement age and immigration.
2. For the next twenty or thirty years, no developed country is likely, therefore, to have stable politics or a strong government. Government instability is going to be the norm.
3. "Retirement" may come to mean two different things. It is quite likely that the trend toward "early retirement" will continue. But it will no longer mean that a person stops working. It will come to mean that a person stops working full-time or as an employee for an organisation for the entire year rather than a few months at a time. Employment relations—traditionally among the most rigid and most uniform relationships—are likely to become increasingly heterogeneous and increasingly flexible, at least for older people. This will increasingly be the case as the centre of gravity in the older population shifts from manual workers to people who have never worked with their hands, and especially to knowledge workers—a shift that will begin in the United States around the year 2010 when the babies of the "baby boom" which began in 1948 reach traditional retirement age.
4. The final implication is that in all developed countries the productivity of all workers— whether full-time or part-time—and especially of all knowledge workers, will have to increase very rapidly. Otherwise, the country—and every organisation in it—will lose position and become steadily poorer.

8.4 MIGRATION AND ETHNIC ASPECTS:

While the population will be declining in many developed countries, which may also lead to labour shortage, population pressure will be mounting in developing nations many of which are neighbours of the rich nations. As a consequence, to prevent migration pressure, as Drucker observes, is like preventing the law of gravity.6 The response to immigration will be different between countries. On the one hand is the United States which has been a great nation of immigrants and on the other is Japan, which has never allowed any immigration whatsoever. The immigration will likely be a hot political issue in a number of countries.

Already, immigration has brought about very remarkable ethnic changes in USA.7 A number of localities are concentrated by immigrant communities. Detroit claims to be the Arab capital of America. Miami used to be thought of as a Cuban enclave, but is becoming more Haitian, more Jamaican, more all sorts of things. According to the mayor of Miami, his region is home to 156 nationalities. Silicon Valley is merely the latest American showpiece to be built in large part by immigrants.

In the 1950 census, America was 89 per cent white and 10 per cent black. Other races hardly got a look-in. Now, Latinos account for around 12 per cent of the population. Within the next five years, they will overtake blacks to become the largest minority group. If current trends continue, they will be the majority in Los Angeles County in ten years. In 20 years, they will dominate Texas and California. By 2050, one in four of the 400 million people who will then be living in the United States will be Latino—and if you add in Asians, their joint share will be one in three.

It is estimated that every year roughly a million new people arrive (700,000 legally, 300,000 illegally) in USA. Once settled, the immigrants generally have more children than their neighbours (An average of around three per woman, compared with 1.8 for non-Hispanic white women). Half of the 50 million new inhabitants expected in America in the next 25 years will be immigrants or the children of immigrants.

The good old dictum be a Roman when in Rome hardly happens. Although the US was originally called a melting pot, immigrants have been found to retain their identity rather than melting. As Kotler observes,8 now the US is called a salad bowl society with ethnic groups maintaining their ethnic differences, neighbourhoods and cultures. Each specific group has certain specific wants and buying habits. Several food, clothing and furniture companies in the US have directed their products to one or more of these groups. For instance, Sears is taking note of the preferences of different ethnic groups. Colgate Palmolive has successfully promoted its toothpaste within the Hispanic community through ads that place less emphasis on health and more emphasis on appearance. Marketers must, however, be careful not to overgeneralize about ethnic groups because within each ethnic group there are consumers who are different from each other.

LET US SUM UP

Demographic factors such as size of the population, population growth rates, age composition, ethnic composition, spatial distribution of population, family size, family life cycle, income levels, ethnic composition, religion etc. have very significant implications for business.

The demographic environment differs from country to country and from place to place within the same country or region. Further, it may change significantly over time.

Because of the diversity of the demographic environment, companies are sometimes compelled to adopt different strategies within the 'same market'. Population growth rates vary widely between nations.

The world population is projected to jump from about 6 billion in 1999 to over 7 billion by 2014. More than half of the next billion will come from South Asia and Sub-Saharan Africa, Europe and Central Asia will add just 1 per cent and the world's high-income countries will add about 3 per cent.

While there has been an explosive growth of the global population, particularly in the developing countries, the universal trend now, however, is fall in birth rates, although the total population is still growing at over one per cent annually. Developing countries are also experiencing significant decline in the population growth rates. In developed countries, the fall in the birth rate is so steep that the population size would shrink drastically.

Because of the declining birth rate, population is already peaking in a number of countries. The declining birth rate and the collapse of population size have serious implications for business.

The increase in population and increase in income make the developing countries very attractive markets of the future. In fact, there are only three countries, excluding India (China, USA and Indonesia), in the world with a total population larger than the population that India added to itself during 1991-2001. The total population of a large number of countries is smaller than the annual addition to the Indian population.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. ___________ has a significant impact on the demand for many products.

a) Income distribution b) Family size

c) Education d) Age composition

2. Which of the following is not a demographic basis of market segmentation?

a) Age structure b) Gender

c) Occupation d) Technological advancements

3. What is the expected proportion of Latinos and Asians in the US population by 2050?

a) One in four b) One in three

c) One in two d) Two in three

4. ____________ is the reason for some food, clothing and furniture companies in the US to direct their products to specific ethnic groups?

a) To promote diversity

b) To encourage assimilation

c) To maintain ethnic differences

d) To cater to specific wants and buying habits

5. What is the implication of declining birth rates in developed countries for businesses?

a) The population size would shrink drastically.
b) There will be an explosive growth of the global population.
c) Developing countries will experience significant growth in population.
d) There will be no effect on businesses.

GLOSSARY

Demographic factors	**:**	Refers to the characteristics of human populations, such as size, growth rate, age, ethnic composition, spatial distribution, family size, family life cycle, income levels, and religion.
Population growth rates	**:**	Refers to the increase in the number of individuals in a population over a specific period of time, usually one year.
Birth rate	**:**	Refers to the number of births per 1,000 individuals in a population over a specific period of time, usually one year.
Developing countries:	**:**	Refers to countries that have low levels of economic development and a high proportion of their population living in poverty.

High-income countries	:	Refers to countries that have a high level of economic development and a low proportion of their population living in poverty.
Market	:	Refers to a group of potential customers who share a common need or want and are willing and able to purchase a product or service to satisfy that need or want.
Population size	:	Refers to the total number of individuals in a population.
Business implications	:	Refers to the potential effects that demographic factors can have on a company's operations, marketing strategies, and profitability.

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2. https://www.vedantu.com/commerce/business-environment
3. DAY 01 | BUSINESS ENVIRONMENT | I SEM | B.B.A | INTRODUCTION TO BUSINESS ENVIRONMENT | L1 - YouTube
4. https://www.youtube.com/watch?v=FCacrNZacm8

ANSWER TO CHECK YOUR PROGRESS

1.d) 2.d) 3. a) 4.d) 5. a)

UNIT 9

CULTURE AND BUSINESS

STRUCTURE

OVERVIEW

Business culture refers to the set of behavioral and procedural norms that can be observed within a company, such as its policies, procedures, ethics, values, employee behaviors and attitudes, goals and code of conduct. It includes the behavior pattern and norms of that group the rules, the assumptions, the perceptions, and the logic and reasoning that are specific to a group. Successful businesses have learned the importance of culture in a company and how it can increase employee morale, encourage equitable Culture is what is core to the organisation. Culture is the values & beliefs that an organisation upholds and it is demonstrated through the behaviors of individuals & teams. Hence every organisation must understand the culture and behaviours of individual which define the organisational character. It is a continuous process keep changing from time to time.

LEARNING OBJECTIVES

After studying this unit, you will be able to;

- define the meaning of business and culture
- explain the different dimensions of business and culture
- explain the elements of culture
- describe the characteristics of business.

9.1 INTRODUCTION

Business is an integral part of social system. The social system is influenced by the way the business functions. Social and cultural environment refers to the influence exercised by a number of social factors. Such factors include attitude to wealth, family, marriage, education, caste and religion etc. These, is turn are influenced by the culture, social attitudes, changing patterns of culture, demographic features of the people and human nature and needs.

Cultures change slowly and pick up new ideas gradually. However, there are certain deep-rooted values that are not self-contained and persistent that if there is any sudden change, people are torn apart and completely uprooted psychologically. Business and culture are closely connected. Social and cultural environment refers to the influence exercised by certain social and cultural factors like family, marriage, religion, education, attitude of people to work, ethics, attitude to wealth and social responsibility of business.

9.2 DEFINITION OF CULTURE

E.B. Taylor says, "Culture is understood as that complex whole which includes knowledge, belief, art, law, morals, customs and other capabilities acquired by an individual as member of a society".

Cultural is not confined to one particular period of time. It has two phenomena shared values and passage of time. Culture of society is shared by its members secondly; cultural ethos is passed on from generation to generation.

Francis Merill has formulated the concept of cultural as follows. He says culture:

- Is characteristically human product of social interaction.
- Provides socially acceptable patterns for meeting biological and social needs.
- Is cumulative as it is passed on from generation of generation in a given society.

- Is learned by each individual in the course of his development in a particular society.
- Is therefore, a basic determinate of personality and
- Depends for its existence upon the continued functioning of society but it is independent of any individual or group.

According to Elbert W. Sterward and James A. Glyne say "Culture consists of the thought and behaviour patterns that members of society learn through language and other forms of symbolic interaction their customs, habit, beliefs, and values, the common views points which bind them together as a social entity".

Culture, according to anthropologists, comprise of everything from traditional manner in which people produce, cook, or eat their food, the socials moral, religious, values which are generally accepted by people.

Edward T. Hall says cultural is not an exotic notion studied by a select group of anthropologists. It is a mold in which we are all cast, and it controls our daily lives in many unsuspected ways.

According to Schiftman and Lazar Kanuk, "Cultural is the sum total of earned beliefs, values and customs that serve to direct the consumer behavior of members of that society".

9.3 DIMENSIONS OF CULTURE

Business and culture are highly interlinked and their interface may be highlighted in the following dimensions.

i) Culture creates Tastes and Preferences: A sub society may have a sub cultural impact and this determines the products they buy and the pattern of consumption.

ii) Culture determines Products and Services: The beverages people drink, the type of food they eat., the clothes they wear, the goods or service they consume are changing from time to time within the same culture. The business should realise difference in culture and produce the products suitably.

iii) Culture determines the extent of Globalisations: Work motivation, profit, motivation, business goals, negotiating styles, attitudes towards development of business of relationship, gift giving customs, greetings, significance of body gestures, meaning of colors and number vary from country to country. A company that wants to globalize should consider all the above factors.

iv) Culture determines Attitude: The attitude of people towards self is most important. An American finds himself more assertive and independent when compared to an Indian or a Japanese.

Similarly attitude to business is based on belief, customs and the social philosophies. The attitude of a worker to worker towards work largely depends up on his culture. A person from Japan might like to have team, job pride in group tasks, motivate toward efficiency and perfection. In India the worker is more different towards his work.

The degree of "Collectivism" and individualism decided by cultural factors. The Japanese enjoy pride in "Collectivism" while the US based executive enjoys individualism".

9.4 ELEMENTS OF CULTURE

The following are some important elements of culture.

i) Knowledge and Belief: Here knowledge includes scientific realistic concepts, where beliefs include myths, metaphysical beliefs.

ii) Ideals: It refers to the social norms which define what is expected, customary, right or proper in a given situation. Always these norms are enforced by sanctions.

iii) Preferences: It includes both attractive and un attractive choice of the people. They are the objects of desire.

iv) Taste, Fashion and Habits: The culture of the any society includes the general taste of its members, the fashions and habits chosen by the members.

v) Art and Literature: Art and literature are the important cultural elements which help the culture to develop itself and In the existence of culture for a long period.

vi) Moral and Legislation: The culture also includes moral rules and legal requirement of the society.

9.5 INDIAN LANGUAGES AND THEIR CLASSIFICATION

The Indian people, composed of diverse elements, now speak language belonging to four district speech families the Aryan, the Dravidian, the Sino- Tibetans (or monologed) and the Austric. Indian civilisation has found its expression primarily through the Ariyan speech as it developed over the centuries. The rhymes and poem collected in the four Vedas, sometime during the tenth century B.C represent the earliest stage of the Aryan speech in India. The non –Aryan Dravidian and Austic Dravidian and Austic Dialects along with Aryan language gave birth to middle Indo-

Aryan or Prakrit. The whole country in North, East and central Indian become Aryanized through the spread of Prakrit.

A younger form of the Vedic speech established by the Brahmans in northern Punjab later came to known as ‘Sanskrit’. Sanskrit became one of the greatest languages in Indian civilisation and the greatest vehicle of Indian culture for the last 2,500 years. A great many works in Sanskrit-the Mahabharata, the Ramayana, the puranas the Dharma – Sastra acquired vast sanctity. Sanskrit absorbed and assimilated many words and the terms of expression form the regional dialects. Dravidian is the other important language family which forms a solid block in south India, embracing the four great literary languages, Kannada, Malayalam, Tamil and Telugu. Of the four great Dravidian languages, Tamil has preserved its Dravidian character best.

People of Mongoloid origin speaking language of the Sino-Tibetan family were present during century B.C. The Sino-Tibetan language does not have much importance or cultural significance in India. Austic language of India link up India with Burma, with Indo-China, Malaya and Indonesia.

Persian was the court language of the Muslim rulers, and Urdu came in to existence in the 13th – 14th centuries as the medium of communication between the people and the Persian –using court and army officials.

Hindi is a great language and it has one of the richest medieval literatures of India. It is the link of North Indian. Since the days of Ramadhan Roy (1772-1833), Bengali prose became a powerful medium with the help of Sanskrit. A song in Bengali composed by Rabindranath Tagore has been adopted as the National Anthem of the Indian Republic. English, the official language of the British rules became the medium used by the elite all over the country and now it has become the only available medium for inter-state-university and inter –national communication.

9.6 MEANING OF BUSINESS

The term ‘businesses typically refer to the development and processing of economic values in society. Normally, the term is applied to that of economy whose primary purpose is to provide goods and services for society in an effective manner. The following are some of the popular definitions.

9.7 DEFINITION OF BUSINESS

“Business comprises all profit – seeking activities and enterprises that provide goods and services necessary to an economic pulse of a nation, striving to increase society ‘s standard of living. Profits are a primary mechanism for motivating these activities." - **Boone, Louis. E and David. L.Kurtz.**

"Business is any enterprise which makes, distributes, or provides any article or service which other members of the community need and are and willing to pay for". – **Urwick and Hunt.**

Business may be defined as "the organised efforts by individuals to produce goods and services, to sell these goods and services in a market place, and to reap some reward for this effort!"

Functionally, we may define business as "those human activities which involves production or purchase of goods with the object of selling them at a profit". In essence, business represents an organized effort by an individual or individuals engaged in making a living. Each firm furnishes goods and services to others, and each operates with the aim of furnishing some return to its members.

9.8 CHARACTERISTICS OF BUSINESS

The following are characteristics of business

- I) Sale, Transfer or Exchange
- ii) Dealing in Goods and Services
- iii) Continuity in Dealings
- iv) Profit Motive
- v) Risk or Uncertainly

i) Sale, Transfer or Exchange: The foremost characteristic of business is the exchange or transfer of goods and service for price or value. Production or purchase of goods and services for personal use or for presenting as gifts to others not constitute business as no sale or transfer for value is involved. For example, a farmer who keeps cows to obtain milk for his family is not running a business. But if he keeps a number of cows to sell the milk obtained from them it becomes business provided the other conditions are also satisfied.

ii) Dealing in Goods and Services: Dealing in goods and services is another distinguishing feature of business. Every business enterprise comes into existence to provide goods or services to society. The goods or services may be procured by an enterprise through production and / or purchase. The goods may be consumer goods such as bread, rice, cloth, shoes, etc. or producer's goods like tools, components, machinery, raw materials, etc. The consumer goods are meant for direct consumption in the original or processed form. Producers' goods or capital goods are used for producing other goods. Services are intangible and invisible goods, e.g., electricity, gas, insurance, transportation, banking, etc.

iii) Continuity in Dealings: Dealing in goods and services constitute business only when they are carried on regularly. A single transaction like sale of old newspapers by a housewife or the sale of one's old scooter is not business though the seller gets money in exchange. But the Hindustan Times Ltd. and Bajaj Auto Ltd. are business concerns because they are regularly dealing in the same article. Recurring sale rather than an isolated deal is the hallmark of business.

iv) Profit Motive: Every business is carried on with the purpose earning money and acquiring wealth. It is the hope of making money that induces people to go into business. No business can survive for long without earning profits. Even government enterprises are expected to earn profit or surplus. However, profits must be earned through legal and fair means or by serving the society and not by exploiting smuggling and black – marketing cannot be called business.

v) Risk or Uncertainly: Risk implies the uncertainty of reward or the possibility of loss. The element of risk is present in almost all economic activities but it is more significant in business. Though business aims at profits, losses are quite possible and common. Before an activity can be called business there must, therefore, exist not only the goal of profit but the risk of loss. Risk or uncertainty arises because the future is unknown and businessmen have practically no control over several factors affecting profits. These factors include:

- Charge in consumers tastes, fashions and demand;
- Changes in technology resulting into obsolescence of plant, machinery and techniques of production.
- Increase in the degree of Competition in the market;
- Shortage of raw materials, power, fuel, etc.
- Labour trouble in the form of strikes, lockouts, gheraos, etc...
- Faulty managerial decisions concerning the use of capital and other resources; and
- Fire, theft, and other natural calamities which can be insured against Social Environment

LET US SUM UP

The reader can fully comprehend the culture and its traits after reading This unit. Additionally, it provides a thorough understanding of how culture affects business. It explains how the individual's tastes, preferences, routines, linguistics, traditions, etc. affect business.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. _________include knowledge, belief, moral and customs acquired by an individual as a member of society.

a) Culture	b) Structure
c) Change	d) Environment

2. Culture dimensions includes_________.

a) Tastes, Preference and Attitude	b) Products and Services
c) Globalisations	d) All the above

3. Elements of Business culture includes__________.

a) Vision and Values	b) Practices and People
c) Narrative and Place	d) All the above

4. Business culture needs to be kept alive by_________.

a) Workers	b) Salesman
c) Top Managers	d) Human Resource Managers

5. Business Culture Building characteristics are__________.

a) Commitment	b) Competence
c) Consistency	d) All the above

GLOSSARY

Culture	**:**	It means all the ways of life including arts, beliefs and institutions of a population that are passed down from generation to generation. Culture has been called "the way of life for an entire society
Attitude	**:**	A feeling or opinion about something or someone, or a way of behaving that is caused by this:
Collectivism	**:**	Collectivism is a political theory associated with communism. More broadly, it is the idea that people should prioritize the good of society over the welfare of the individual.
Individualism	**:**	The idea that freedom of thought and action for each person is the most important quality of a

society, rather than shared effort and responsibility.

Cultural Exchange : Cultural exchange is sharing different ideas, traditions, and knowledge with someone who may be coming from a completely different background than your own.

Cultural Transfer : "Cultural transfer" refers to the cultural mobility of objects like the global flow of commodities, concepts, words, images, persons, animals, money, weapons, drugs etc.

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ANSWER TO CHECK YOUR PROGRESS

1.a)	2.d)	3. d)	4.c)	5. d)

UNIT 10

SOCIAL RESPONSIBILITY OF BUSINESS

OVERVIEW

In the age of globalisation, corporations and business enterprises have crossed the national boundaries to become international. Business enterprises have been using natural resources in a big way of maximisation of their profits. Business enterprises intervene in so many areas of social life, hence their responsibility towards society and environment has emerged. In India and elsewhere, there is a growing realisation that business enterprises are, after all, created by society and must therefore serve it and not merely profit from it. Thus the role of business in society has been put under “corporate social responsibility”.

India is a democratic welfare state. It wants to achieve welfare through democratic means. Business organisations which fit in with such a specification would have a better scope to survive and grow here. In order to make themselves suitable for such a business environment, they should foster a corporate objective of maximizing social benefit. This must be considered as the social responsibility of business. It means that every business enterprise has a responsibility to take care of the society's interest.

LEARNING OBJECTIVES

After studying this unit, you will be able to;

- define the meaning of social responsibilities
- explain the social responsibilities of business towards various groups
- describe arguments against social responsibilities in business
- elucidate the social responsibilities in Indian context.

10.1 INTRODUCTION

The real meaning of social responsibility with reference to business enterprises has to be understood first to see the correlation of business with social responsibility. Business is an economic activity to earn profit for the owner and social responsibility means serving community without any expectation. Now the question arises is why is there a need for a business to serve the community? Business is expected to create wealth, create markets, generate employment, innovate, and produce sufficient surplus to sustain its activities and improve its competitiveness. Society is expected to provide an environment in which business can develop and prosper, allowing investors to earn returns. Business depends for its survival and long – term prosperity on society to provide the resources – people, raw materials, services, and infrastructure. These inputs from society help to convert raw materials into profitable goods and services. While society provides the means of exchange, trained manpower, legal and banking system, infrastructure like roads, schools, hospitals, and so on. Business provides producers and services, direct and indirect employment, income generation in terms of wages, dividend, taxes, interest, and the like. The long – term sustainability of any business requires business – society connects. In addition to the above, with the advent of the joint stock company, society grants to business two special rights to assist it in performing its role. The first is "potential immorality" and the second is "limited liability".

10.2 DEFINITION

Koonz and O' Donnell have defined social responsibility as "The personal obligations of the people as they act in their own interests to assure that the rights and legitimate interest of others are not ignored". The international Seminar on the social Responsibilities of Business held in New Delhi in 1965 defined "social responsibilities of business as responsibility to customers, workers, shareholders and the community".

Adolph Berla defined social responsibility as the Manager's responsiveness to public consensus. This means that there cannot be the same set of social responsibilities applicable to all countries at all times. These would be determined in case by the customs religions, traditions, level of industrialisation and a host of other norms and standards about which there is a public consensus at any given time in a given society.

According to Keith Davis, the term social responsibility refers to two type of business obligations (a) the socio-economic obligation and (b) the socio human obligation.

From the above definitions, it is very clear that the concept of social responsibility assumes that business has not only economic and legal obligations, but also certain other social responsibilities. The Socio – economic obligation of every business is to see that the economic consequences of its actions do not adversely affect public welfare. This includes obligations to promote employment opportunities, to maintain competition, to curb inflation, and the like. The socio – human obligation of every business is to nurture and develop human values (such as morale, cooperation, motivation and self – realisation in work).

10.3 SOCIAL RESPONSIBILITIES OF BUSINESS TOWARDS DIFFERENT GROUPS

The social responsibilities of business enterprises should be considered with reference to their responsibilities towards owners (shareholders), employees, consumers, the Government and the community at Large.

i) Responsibility Towards Owners or Shareholders

It is primary responsibility of the management. The expectations of the shareholders are:

- A fair and responsible rate of return on capital and fair dividend for their investment.
- A vshare in the profit, in the shape of profit – sharing or bonus payment schemes
- Capital appreciation
- Security for investment
- Corporate image and
- Knowledge about the working of the enterprise and its periodical report.

ii) Responsibility Towards Employees

The responsibility of business towards society demands a new orientation of the employer – employee relationship in place of the traditional master

– servant relationship. The management should promote a spirit of co – operative endeavor between employers and employees. Responsibility of the Organisation towards Employees include

- Payment of fair and reasonable wages to labour and fair salaries to the staff members based on the principles of adequacy, equity and human dignity.
- Provision of reasonable and just working conditions
- Establishment of fair work standards and norms
- Provision of labour welfare facilities such as medical facilities accommodation, canteen facilities etc.
- Adoption of progressive labour policy based on recognition of genuine trade union rights
- Development of leadership qualities
- Providing facilities for joint consultation and collective bargaining
- Offering job security and promotion opportunities
- Arrangements for proper training and education of the workers
- Proper recognition, appreciation and encouragement of special skills of the employees and workers and
- Provision of religious, social political freedom to workers.

iii) Responsibility Towards Consumers

The modern marketing approach is consumer – oriented. It aims at satisfying the real needs and wants of the consumers. The success of an organisation depends upon its ability to satisfy the consumers' needs and wants. The following are the important responsibilities of the business consumers:

- The goods supplied must meet the needs of the consumers of different classes, tastes towards and purchasing power.
- The goods must be of appropriate standard and quality, and be available in adequate quantities at reasonable prices.
- Customer services should be available by way of advice, guidance and maintenance.
- There should be a fair and widespread distribution goods and services among all the sections of consumers.
- There should be prevention of concentration of goods in the hands of a limited number of products or purchasers or groups.
- The products supplied should not have any adverse effect on the consumers.
- Taking appropriate steps to prevent profiteering, hoarding, black marketing etc.
- Avoiding misleading, false and exaggerated advertisements.

- Providing an opportunity for being heard and redressing the genuine grievances of the customers.

iv) Responsibility towards the Government

The responsibility of business towards the Government includes the following: -

- The enterprise should conduct its affairs in a law-abiding manner.
- It should pay its dues and taxes to the Government fully and honestly.
- It should desist from corrupting public servants or the democratic process for selfish ends.
- It should not make any attempt to buy political support by money or patronage.
- It should follow honest trade practices and avoid activities leading to restraint of trade.
- It should maintain impartially towards political affairs, i.e., it should abstain from direct political involvement and should not support any political party.

v) Responsibility to the Community

A business has many responsibilities towards society at large. These responsibilities include:

- Providing employment opportunities to the socially handicapped and weaker sections of the community
- Taking all efforts to prevent environmental pollution and preserve the ecological balance.
- Setting up new industries in backward and less developed regions.
- Promotion of cottage, village and small – scale industries
- Protecting and improving the natural environment including forests, lakes, rivers and wild life.
- Prevention of slum development, elimination of crimes in industrial areas and meeting the heavy costs of pollution and waste disposal.
- Providing relief to victims of natural calamities.
- Providing liberal contribution to furthering social causes such as promotion of education, population control, AIDS control programme, etc.
- Contributing to the overall development of the locality in which the business is situated.

10.4 ARGUMENTS AGAINST SOCIAL RESPONSIBILITY OF BUSINESS

i) Milton Friedman argues “that there is one and only one social responsibility of business that is to use its resources and engage in activities designed to increase its Profits”. He is of the opinion that social matters are not the immediate concern of business people. Further, he argues that in a free enterprise, private property system, a corporate executive is an employee of the owners of the business. Therefore, he should conduct the business in accordance with their desires, which generally will be to make as much money as possible, while conforming to the basic rules of society.

ii) Hayek argues that entrusting the management with power to use the resources for social good rather than upholding the owner’s interest would amount to conferring the management with arbitrary and politically dangerous powers.

iii) Another major objection to social responsibility is that business is not equipped to handle social activities. According to this view, managers do not have the required social skills and expertise to make social decisions. It may be said that if managers pay special attention to social responsibility, it would dilute the primary purpose of business.

iv) Another argument against social responsibility of business is that business already has enormous economic, environmental and technological power. As such, business concerns should not be entrusted with additional powers.

v) If business firms undertake social responsibilities, the cost of production of their goods and services may tend to increase. This would make the firms products less competitive in the international market.

10.5 ARGUMENTS FOR SOCIAL RESPONSIBILITY OF BUSINESS

i) The case for social responsibility of business arises primarily on the ground that business concerns are creatures of society. They make use of the resources of the society and depend upon the society for their existence. As such, they should discharge their duties and responsibilities in enhancing the welfare of the society.

ii) In recent years, the growth of large corporate enterprises has resulted in many serious human and social problems. Hence, managers should conduct the affairs of corporate enterprises in such way as to solve or at least ameliorate these problems.

iii) Another reason for business assuming social responsibilities is to avoid future Government intervention and regulation in the social field. If business fails to assume social responsibilities. Prominent examples include the Consumer Protection Act, 1986 and the MRTP Act, 1969.

iv) Social responsibility also emanates from the social power which business possesses, say as a result of being a potential employer.

v) Business is an integral part of society. It makes use of the resources of society to accomplish its objectives. Hence, business has not only to protect the interest of those whom it serves but also of society at large, as a custodian of the society's resources.

vi) The doctrine of trusteeship, as propounded by Mahatma Gandhi and Andrew Carniger, emphasizes the fact that "A business must be held in trust legally and normally for the benefit of the people whom the business wants to serve" Business must earn a profit to survive and grow. However, it must act in concert with the broad public interest and serve the objectives of mankind and society.

vii) Davis Keith argues that "Business has the resources and let business try". "He is of the opinion that business has a reservoir of management talent, functional expertise and capital. Therefore, business can try to solve social problems.

viii) Changing social values have also let to the adoption of this concept. The boundaries of business are determined by the prevailing values of the society. For instance, do we allow environmental pollution and if so, of what kind and how much? Such questions are determined by the prevailing values in the society.

ix) Win a view to enhancing corporate image and goodwill, an enterprise has to behave in a socially responsible manner. The purpose of enhancing corporate image is to attract a large number of customers.

x) Another major reason for the involvement of business in the social area is to maintain industrial peace. Today, trade unions demand better working conditions, reasonable wages, welfare facilities, etc. Therefore, to maintain industrial peace, business has to be involved in social activities.

xi) Yet another reason is the enlightened self-interest of business. This doctrine assumes that by helping society as a whole, business is actually serving its own long – term interest. It is to be noted that long – term interest of business as best served when management assumes social responsibilities.

10.6 SOCIAL RESPONSIBILITY - THE INDIAN SITUATION

The concept of social responsibility is very old in India. Businessmen were treated with great respect also because of prevalence of the concept of parting with one's wealth for the benefit of society. Merchants have always been charitable and provided relief in difficult times of draughts, famine or epidemics. Over the years this practice remained same except the shift from merchant charity to corporate citizenship. The merchants were leaders not only in the economic but also the social field and took active interest in social reforms and in public life as well.

J.R.D Tata was first to conduct social audit in India. Number of leading companies have realised the social responsibility and recognised the concept of social responsibility of corporate sector. Numbers of schools, colleges, hospitals, research institutes, technological institute, management's institutes, libraries, museum, places of religions, worship, institutes for old and orphans, have set up with the help of business community. There have been huge contributions from many businessmen for the poor and needy in times or droughts earthquakes, floods and other natural calamities. The problem of damage to ecology is a serious problem now – a – days which has been handled by many businessmen in very effective way. The number of measures taken to control "Pollution in environment" shows the efforts put in by them with the help of government. Public sector is guilty as private sector as far as the problem of pollution of environment is concerned. There are many public sector enterprises in India which have failed to discharge their primary responsibilities as well. There has been change in attitude of society and the business community itself about its obligations to society and the way of expressing it. now there is more of direct engagement in the mainstream development concerns and in helping disadvantaged groups in the society.

An international seminar was held in New Delhi in March 1995 to define social responsibility of business followed by another seminar in March 1966 in Calcutta. A National Committee on Social Responsibilities of Business was also constituted. In 1980 big business houses adopted 100 villages for developing them as model villages. The problem of industrial labour unrest has also been taken care of by ensuring participation of labour in management.

Through the business units in India have starting realising their responsibility towards society, but member of such units is very limited. Government should take legislative measures to force all business units to contribute something for social uplift. Besides legislative measures, awareness about social responsibility should be created. Business should prepare a code of ethics for social upliftment. The company law can also make a provision to make it obligatory for units having investment beyond a certain limit to spend a part of their profits on social welfare activities. The companies should also show in their balance sheets the amount they have spent on social obligations.

LET US SUM SUP

After reading this unit, the reader will have a comprehensive understanding of what social responsibility is and how businesses must be responsible to society. This unit provides an overview of the socially acceptable practices, such as the provision of high-quality goods and services, the charging of reasonable prices for such items, and the improvement of working conditions. Also, it presents a clear picture of the social obligations that businesses in India have.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. Responsibility of business to employees includes___________.

a) Payment of Fair Wages

b) Providing Training and Education

c) Recognizing them

d) All the above

2. Responsibility of business to the Community includes__________.

a) Making Eco - Friendly Products

b) Developing Backward / Rural areas

c) Developing a Better Society

d) All the above

3. For a business which is a broader term social responsibility or legal responsibility__________.

a) Both are equally important b) Social Responsibility

c) Legal Responsibility d) None of the above

4. A firm has the social responsibility of providing fair returns to its_.

a) Investors b) Customers

c) Suppliers d) All the above

5. "To adopt fair trade policies and Practices". It is an example of responsibility of business towards___________.

a) Shareholders b) Employees

c) Government d) Consumers

GLOSSARY

Social Responsibility	**:**	Social Responsibility is an ethical theory in which individuals are accountable for fulfilling their civic duty, and the actions of an individual must benefit the whole of society.
Shareholders	**:**	A shareholder is a person or institution that has invested money in a corporation in exchange for a "share" of the ownership.
Consumers	**:**	A person who buys goods or services for their own use:
Capital Appreciation	**:**	Capital appreciation is a rise in an investment's market price. Capital appreciation is the difference between the purchase price and the selling price of an investment. I
Corporate Image	**:**	A corporate identity or corporate image is the manner in which a corporation, firm or business enterprise presents itself to the public. The corporate identity is typically visualized by branding and with the use of trademarks, but it can also include things like product design, advertising, public relations etc.

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ANSWER TO CHECK YOUR PROGRESS

1.d) 2.d) 3.b) 4.a) 5. c)

BLOCK - 4

UNIT 11

BUSINESS ETHICS AND VALUES

STRUCTURE

OVERVIEW

Business ethics carries significant influence in the corporate world. Not only does it change how businesses operate on a day-to-day- basis, but it also influences legislation around corporate regulation.

Business ethics is the study of how a business should act in the face of ethical dilemmas and controversial situations. This can include a number of different situations, including how a business is governed, how stocks are traded, a business' role in social issues, and more. Many businesses leverage business ethics not only to remain clean from a legal perspective, but also to boost their public image. It instills and ensures trust between consumers and the businesses that serve them.

The modern idea of business ethics as a field is relatively new, but how to ethically conduct business has been widely debated since bartering and trading first arose. Aristotle even proposed a few of his own ideas about business ethics.

LEARNING OBJECTIVES

After studying this unit, you will be able to;

- define the meaning of business ethics
- explain needs for business ethics
- enumerate principles of business ethics
- describe sources of business ethics
- explain the elements of business ethics
- highlight the characteristics of business ethics
- describe the scope and nature of business ethics
- delineate the benefits of business ethics.

11.1 INTRODUCTION

The term "ethics" is derived from the Greek word "ethos" which refers to character or customs or accepted behaviors. The Oxford Dictionary states ethics as "the moral principle that governs a person's behavior or how an activity is conducted". The synonyms of ethics as per Collins Thesaurus are - moral code, morality, moral philosophy, moral values, principles, rules of conduct, standards. Ethics is a set of principles or standards of human conduct that govern the behavior of individuals or organisations. Using these ethical standards, a person or a group of persons or an organisation regulate their behavior to distinguish between what is right and what is wrong as perceived by others.

Ethics is a subject of social science that is related with moral principles and social values. 'Business Ethics' can be termed as a study of proper business policies and practices regarding potentially controversial issues, such as corporate governance, insider trading, bribery, discrimination, corporate social responsibility, and fiduciary responsibilities. Businesses must abide by some basic principles. It should provide quality goods and services at reasonable prices to their consumers. It must also avoid adulteration, misleading advertisements, and other unfair malpractices.

11.2 MEANING AND DEFINITION

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

There are many definitions of business ethics, but the ones given by Andrew Crane and Raymond C. Baumhart are considered the most appropriate ones.

Definition

According to Crane, "Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed."

Baumhart defines, "The ethics of business is the ethics of responsibility. The business man must promise that he will not harm knowingly."

11.3 NEEDS FOR BUSINESS ETHICS

The need for business ethics, i.e., for a set of generally accepted standard of personal conduct, is evident throughout the world. These have been and are being developed by the trade associations concerned with these broad objectives:

i) Publication of a Code of Ethics is likely to improve the confidence of customers, clients, employees, etc., in the quality of service they may expect;
ii) Business code governs the inter-relationship of the members. Business cannot be carried on, in its present complexity, without trust in the ethical standards of vendors and suppliers, of financiers and of government agencies.
iii) The interest of all those who deal with business –the stock-holders, employees, customers, competitors, dealers and suppliers, and the local community –need be protected from the unethical and dubious ways of dealing and exploitation.
iv) The consumer's right can be saved and served well only when there is some type of moral binding on the business community: (a) the consumer has the right to be informed; (b) he has the right to safety; (c) he has the right to choose; (d) he has the right to be heard.
v) Business today is confronted with major group of social issues (a) people –oriented management; (b) ecology and environment protection; (c) consumerism; and (d) the energy crisis and resource utilisation and development. These issues being inter-related, need that business should feel some obligation for meeting these issues.

11.4 NATURE OF BUSINESS ETHICS

i) Ensure legality of business activities: Business activities must be legal and a business man should not do any kind of illegal activity.

ii) Customer Orientation: All of his operations must be customer oriented. He must bear in his mind that the "customer is the kinds" So, he should produce and distribute that types of goods and services which can satisfy the customers.

iii) Supplying Good Quality Product: A businessman must have to ensure the supply of good quality products and services. He has to maintain minimum standard of his product and service.

iv) Price: Businessman has to claim a reasonable price for has products or services that is under buying capacity of the customers.

v) Following Rules and Regulations: A businessman must have to follow all business-related rules and regulations that is formulated by the government.

vi) Employer-employee relationship: This is an important issue to build up a friendly relationship between employer and employees in an organisation because a success of the organisation largely depends on it.

vii) Avoiding fraud and cheating: A businessman has to avoid unfair means. He should not try to cheat or fraud the customers or general public. He should always practice honesty and sincerity in his activities.

viii) Environmental issues: In the present world, environmental issues are considered a vital matter. A businessman ensures healthy environment for the insiders as well as the outsiders for running the organisation smoothly.

ix) Avoiding artificial shortage: Some dishonest businessmen create artificial shortage of products and thereby they want to gain more profit. This is not acceptable.

x) Avoiding harmful competition: In order to survive in the market successfully, each and every business organisation should co-operate with each other. They should avoid harmful competition.

11.5 SOURCES OF BUSINESS ETHICS

The various sources from where ethical values have been evolved. The main sources are;

i) Religion
ii) Society
iii) Legal System
iv) Genetic inheritance
v) Marketplace
vi) Nature

vii) Culture

11.6 SCOPE OF BUSINESS ETHICS

Ethical problems and phenomena arise across all the functional areas of companies and at all levels within the company.

i) Ethics in Compliance: Compliance is about obeying and adhering to rules and authority. The motivation for being compliant could be to do the right thing out of the fear of being caught rather than a desire to be abiding by the law. An ethical climate in an organisation ensures that compliance with law is fuelled by a desire to abide by the laws. Organisations that value high ethics comply with the laws not only in letter but go beyond what is stipulated or expected of them.

ii) Ethics in Finance: The ethical issues in finance that companies and employees are confronted with include: • In accounting – window dressing, misleading financial analysis.

- Related party transactions not at arm's length
- Insider trading, securities fraud leading to manipulation of the financial markets.
- Executive compensation.
- Bribery, kickbacks, over billing of expenses, facilitation payments.
- Fake reimbursements

iii) Ethics in Human Resources: Human Resource Management (HRM) plays a decisive role in introducing and implementing ethics. Ethics should be a pivotal issue for HR specialists. The ethics of human resource management (HRM) covers those ethical issues arising around the employer-employee relationship, such as the rights and duties owed between employer and employee. The issues of ethics faced by HRM include:

- Discrimination issues i.e., discrimination on the bases of age, gender, race, religion, disabilities, weight etc.
- Sexual harassment.
- Affirmative Action.
- Issues surrounding the representation of employees and the democratisation of the workplace, trade etc.,
- Issues affecting the privacy of the employee: workplace surveillance, drug testing.
- Issues affecting the privacy of the employer: whistle-blowing.
- Issues relating to the fairness of the employment contract and the balance of power between employer and employee

- Occupational safety and health. Companies tend to shift economic risks onto the shoulders of their employees. The boom of performance-related pay systems and flexible employment contracts are indicators of these newly established forms of shifting risk.

iv) Ethics in Marketing: Marketing ethics is the area of applied ethics which deals with the moral principles behind the operation and regulation of marketing. The ethical issues confronted in this area include:

- Pricing: price fixing, price discrimination, price skimming.
- Anti-competitive practices like manipulation of supply, exclusive dealing arrangements, tying arrangements etc.
- Misleading advertisements
- Content of advertisements. • Children and marketing.
- Black markets, grey markets.

v) Ethics of Production: This area of business ethics deals with the duties of a company to ensure that products and production processes do not cause harm. Some of the more acute dilemmas in this area arise out of the fact that there is usually a degree of danger in any product or production process and it is difficult to define a degree of permissibility, or the degree of permissibility may depend on the changing state of preventative technologies or changing social perceptions of acceptable risk.

- Defective, addictive and inherently dangerous products and
- Ethical relations between the company and the environment include pollution, environmental ethics, and carbon emissions trading.
- Ethical problems arising out of new technologies for e.g. Genetically modified food
- Product testing ethics. The most systematic approach to fostering ethical behaviour is to build corporate cultures that link ethical standards and business practices.

11.7 ELEMENTS OF BUSINESS ETHICS

i) A Formal Code of Conduct: Code of conduct is statements of organisational values. The Sarbanes-Oxley Act, 2002 made it important for businesses to have an ethics code, something in writing which will help the employees know – with both ease and clarity – what is expected of them on the job. The code should reflect the managements desire to incorporate the values and policies of the organisation.

ii) Code of Ethics: For every new business incorporated, it is important for the management to have a code of ethics for his business. It is usually unwritten for small businesses. It is basically a buzzword for the employees to observe ethical norms and form the basic rules of conduct. It usually specifies methods for reporting violations, disciplinary action for violation and a structure of the due process to be followed. A code of ethics must summarize the beliefs and values of the organisation. For a large business empire, it is important to hire talent to assist existing personnel with regards to integrity, understanding, responsibility, and cultural norms of the country.

iii) Ethics Committee: Ethics committees can rise concerns of ethical nature; prepare or update code of conduct, and resolve ethical dilemma in organisation. They formulate ethical policies and develop ethical standards. They evaluate the compliances of the organisation with these ethical standards. The committee members should be conscious about the corporate culture and ethical concise of the organisation. The following committees are to be formed:

- **Ethics committee at the board level**- The committee would be charged to oversee development and operation of the ethics management programme.
- **Ethics management committee** – It will be charged with implementing and administrating an ethics management programme, including administrating and training about policies and procedures, and resolving ethical dilemmas.

iv) Ethical Communication System: Ethical communication system helps the employees in making enquiries, getting advice if needed and reporting all the wrong done in the organisation. Objectives of ethical communication system are:

- To communicate the organisations values and standards of ethical conduct or business to employees.
- To provide information to employees on the company's policies and procedures regarding ethical code of conduct.
- To help employees get guidance and resolve queries. To set up means of enquiries such as hotlines, suggestion boxes and e-mail facilities. Top management can communicate the ethical standards to the lower management which can be further transferred to the operational level.

v) An Ethics Office with Ethical Officers: The job of an ethics officer is to communicate and implement ethical policies amongst employees of the organisation. Ethics officer should develop a reputation for credibility, integrity, honesty and responsibility. Functions of ethics officer are:

- Assessing the needs and risks that an ethical programme must address. b. Develop and distribute code of conduct.
- Conduct ethical training programme.
- Maintain confidential service to answer employee's questions about ethical issues.
- To ensure that organisation in compliance with governmental regulations.
- To monitor and audit ethical conduct.
- To take action on possible violation of company's code.
- To review and update code in time.

vi) Ethics Training Programme: Any written ethical code will not work unless supported and followed by a proper training programme. Some companies have an in-house training department while others may opt for an out-source expert. To ensure ethical behaviour, a corporate training programme is established which deals in assisting employees to understand the ethical issues that are likely to arise in their workplace. When new employees are to be recruited, the induction training should be arranged for them. Training will help them to familiarize with company's ethical code of behaviour.

vii) Disciplinary System: A disciplinary system should be established in the organisation to deal with ethical violations promptly and severely. If unethical behavior is not properly dealt with, it will result in threatening the entire social system. A company should adopt fair attitude towards everyone without any discrimination.

viii) Establishing an Ombudsperson: An ombudsperson is responsible to help coordinate development of policies and procedures to institutionalize moral values in the workplace.

ix) Monitoring: To make an ethical programme, a successful monitoring programme needs to be developed. A monitoring committee is formed. Monitoring can be done by keen observation by ethics officer, surveys and supporting systems.

11.8 PRINCIPLES OF BUSINESS ETHICS

The principles of business ethics are related to social groups that comprise of consumers, employees, investors, and the local community. The important rules or principles of business ethics are as follows;

1) Avoid Exploitation of Consumers − Do not cheat and exploit consumer with measures such as artificial price rise and adulteration.

2) Avoid Profiteering − Unscrupulous business activities such as hoarding, black-marketing, selling banned or harmful goods to earn exorbitant profits must be avoided.

3) Encourage Healthy Competition − A healthy competitive atmosphere that offers certain benefits to the consumers must be encouraged.

4) Ensure Accuracy − Accuracy in weighing, packaging and quality of supplying goods to the consumers has to be followed.

5) Pay Taxes Regularly − Taxes and other duties to the government must be honestly and regularly paid.

6) Get the Accounts Audited − Proper business records, accounts must be managed. All authorized persons and authorities should have access to these details.

7) Fair Treatment to Employees − Fair wages or salaries, facilities and incentives must be provided to the employees.

8) Keep the Investors Informed − The shareholders and investors must know about the financial and other important decisions of the company.

9) Avoid Injustice and Discrimination − Avoid all types of injustice and partiality to employees. Discrimination based on gender, race, religion, language, nationality, etc. should be avoided.

10) No Bribe and Corruption − Do not give expensive gifts, commissions and payoffs to people having influence.

11) Discourage Secret Agreement − Making secret agreements with other business people to influence production, distribution, pricing etc. are unethical.

12)Service before Profit − Accept the principle of "service first and profit next."

13) Practice Fair Business − Businesses should be fair, humane, efficient and dynamic to offer certain benefits to consumers.

14) Avoid Monopoly − No private monopolies and concentration of economic power should be practiced.

15) Fulfil Customers' Expectations − Adjust your business activities as per the demands, needs and expectations of the customers.

16) Respect Consumers Rights − Honor the basic rights of the consumers.

17) Accept Social Responsibilities − Honor responsibilities towards the society.

18) Satisfy Consumers' Wants − Satisfy the wants of the consumers as the main objective of the business is to satisfy the consumer's wants. All business operations must have this aim.

19) Service Motive − Service and consumer's satisfaction should get more attention than profit-maximisation.

20) Optimum Utilisation of Resources − Ensure optimum utilisation of resources to remove poverty and to increase the standard of living of people.

21) Intentions of Business − Use permitted legal and sacred means to do business. Avoid Illegal, unscrupulous and evil means.

11.9 UNETHICAL PRACTICES

Unethical Practices against Consumers

i) Adulteration: There have been report of adulteration to the extent had may cause health problems. Black-paper is mixed with papaya seed, sawdust, is coloured and sold as red chili powder, small pebbles are mixed with rice and pulses, wood pieces are coloured. The recent case of mixing animal fat with vanaspati raised all India concern.

ii) Spurious products: Some businesses have gone to the extent of selling spurious products. Even life-saving medicines have not been spared. Sometimes plain water is found in life-saving injections. Glucose bottle either contain very glucose or it is contaminated. Drugs rendered time-barred are sold by changing their labels.

iii) Duplicates: Not only are duplicates found to be sold as imported items but popular brands of Indians products are duplicated. Detergents, Soft-drinks, Ketches, jams, squashes, oils and a host of other items are duplicated and sold under popular brand names.

Unethical Practices against Employees

i) Low Salaries: Excepting certain organisation, particularly in the corporate sector, salaries being paid to the employees tends be very low. They are barely sufficient to make, one's both ends meet.

ii) Poor Working Conditions: There is hardly any attention paid to the work environment. Again, certain exceptions, particularly, in the corporate sector, do exist. Working conditions tend to be unhygienic inadequate ventilation, poor lighting, and no welfare facilities. Besides, safety of the workers is also not carried for.

iii) Exploitation: Bonded labour is still not uncommon; workers being not allowed to move from their work place. Moreover, they are hardly given two square meals and made to work to the whole day. In spite of government's resolve to eradicate this evil it still exists. Cases have been reported not only from far-flung areas but also from capital's neighboring districts in U.P., Haryana and Rajasthan. Besides, employees even educated ones are made to sign receipts for sales more than what are actually paid to them.

Unethical Practices against Government and Community

i) Tax Evasion: one of the basic reasons of tax evasion is said to be the rate of taxation. Income tax, for instance, is highest in India. However, it is doubtful, if lower rates of taxation will make the business community more sincere on paying their taxes, though initial response may be encouraging. Black money has in fact general tend a parallel economy. Government has been endeavoring to channalise this black money into productive uses. Ones such step has been the issue of bearer bounds for which investment are not to be accounted for.

ii) Pollution: Pollution continues to be one of the major practices being followed by Indian business. In spite of a separate Ministry of Environment, air, water noise pollution continues unabated; however, some check has been reported on high industrial units. New projects have to seek clearance from the ministry of Environment before they can be launched. However, better controls may be expected in future

iii) Bribes, etc.: Corrupt practices, including bribe, have become the style of today's business operations. Even political support is exploited to get anything cleared that may otherwise to objectionable. Poor quality construction is cleared by the officials for a quid – proquo. In fact, in certain cases there is a set percentage to be paid to the officials.

LET US SUM UP

Reading this unit provides a thorough understanding of the meaning and importance of corporate ethics. It also sheds more light on the ethical standards that Indian businesses adhere to. It aids the reader in comprehending the dos and don'ts for enterprises. Along with outlining the numerous regulations followed to instill ethical principles in enterprises in India, it also explains the unethical actions that businesspeople engage in against consumers and governments.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. Business Ethics is__________.

a) Social Science b) Normative Science

c) Science of Conduct d) All the above

2. Which one of the following is not principal business ethics?

a) Principle of Universality b) Principle of Dissatisfaction

c) Principle of autonomy d) Principle of humanity

3. What is the major component of business ethics?

a) Ethics b) Ethical principles

c) Rules of behavior d) All of the above

4. Which one of the following is not an unethical practice against Consumer?

a) Adulteration b) Principle of Humanity

c) Spurious Product d) Duplicate

5. Tax Evasion against_________.

a) Consumer b) Employees

c) Government and Community d) None of the above

GLOSSARY

Business Ethics	:	Business ethics refers to implementing appropriate business policies and practices with regard to arguably controversial subjects.
Ethical Communication	:	Ethical communication refers to communicating in a manner that is clear, concise, truthful, and responsible
Ethics Training Program	:	Ethics training is a program where the employees of a business are taught certain business ethics that would improve the workplace
Code Of Ethics	:	A code of ethics sets forth values, ethical principles, and ethical standards to which

professionals aspire and by which their actions can be judged.

Adulteration : Adulteration is the act of making food or drugs of poor quality by adding some other substances to them.

Tax Evasion : Tax evasion is an illegal activity in which a person or entity deliberately avoids paying a true tax liability

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ANSWER TO CHECK YOUR PROGRESS

1.d) 2.b) 3.a) 4. b) 5. c)

UNIT 12

CORPORATE GOVERNANCE

STRUCTURE

OVERVIEW

In today's market-oriented economy, the need for corporate governance arises. Also, efficiency as well as globalisation are significant factors urging corporate governance. Corporate Governance is essential to develop added value to the stakeholders Corporate Governance is the interaction between various stakeholders such as shareholders, board of directors, and company's management etc., in shaping corporation's performance effectively and efficiently in order to satisfy the different stakeholders. The relationship between the owners and the managers in an organisation must be healthy and gives a finance guarantee of fair return on their investment. The owners must see that individual's actual performance is according to the standard performance. These dimensions of corporate governance should not be overlooked. Hence the Corporate Governance deals with determining ways to take effective strategic decisions. It gives ultimate authority and complete responsibility to the Board of Directors.

Learning Objectives

After studying this unit, you will be able to;

- define Corporate Governance
- explain the objectives of Corporate Governance
- explain types of Corporate Social Responsibility
- enumerate principles of Corporate Governance
- discuss the need for Corporate Governance
- delineate Benefits of Corporate Governance
- explain Important Issues in Corporate Governance
- elucidate Corporate Governance in India.

12.1 INTRODUCTION

Corporate Governance refers to the way a corporation is governed. It is the technique by which companies are directed and managed. It means carrying the business as per the stakeholders' desires. It is actually conducted by the board of Directors and the concerned committees for the company's stakeholder's benefit. It is all about balancing individual and societal goals, as well as, economic and social goals.

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 organisation 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 deals with the manner the providers of finance guarantee themselves of getting a fair return on their investment.

Corporate Governance clearly distinguishes between the owners and the managers. The managers are the deciding authority. In modern corporations, the functions/ tasks of owners and managers should be clearly defined, rather, harmonizing.

Corporate Governance deals with determining ways to take effective strategic decisions. It gives ultimate authority and complete responsibility to the Board of Directors. In today's market- oriented economy, the need for corporate governance arises. Also, efficiency as well as globalisation are significant factors urging corporate governance. Corporate Governance is essential to develop added value to the stakeholders.

Corporate Governance ensures transparency which ensures strong and balanced economic development. This also ensures that the interests of all shareholders (majority as well as minority shareholders) are safeguarded. It ensures that all shareholders fully exercise their rights and that the organisation fully recognizes their rights.

12.2 DEFINITION

The definition of corporate governance most widely used is “the system by which companies are directed and controlled” (Cadbury Committee, 1992). More specifically it is the framework by which the various stakeholder interests are balanced, or, as the IFC states, “the relationships among the management, Board of Directors, controlling shareholders, minority shareholders and other stakeholders”. Cadbury Committee [1] (U.K.), 1992 has defined corporate governance as such

“Corporate governance is the system by which companies are directed and controlled. It encompasses the entire mechanics of the functioning of a company and attempts to put in place a system of checks and balances between the shareholders, directors, employees, auditor and the management.”

“Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides this; it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.”

Definition of corporate governance by the **Institute of Company Secretaries of India** is as under: “Corporate Governance is the application of best Management practices, Compliance of law in true letter and spirit and adherence to ethical standards for Effective Management and distribution of wealth and discharge of social Responsibility for sustainable development of all stakeholders”

Corporate governance is, “the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations.” It encompasses the mechanisms by which companies, and those in control, are held to account.’ – **Owen, J.; HIH Royal Commission.**

“Corporate governance is a dynamic force that keeps evolving.” – **Eric Mayne, Chair, ASX Corporate Governance Council**.

“Corporate governance describes the structure of rights and responsibilities among the parties that have a stake in a firm.” – **Aguilera, R.V. & Jackson, G**

12.3 MAIN OBJECTIVES OF CORPORATE GOVERNANCE

i) To catalyze capacity building in new emerging areas of Corporate Governance.
ii) To further research, scholarship, and education in corporate governance in India.
iii) To foster a culture of good governance, voluntary compliance and facilitate effective participation of different stakeholders.
iv) To create a framework of best practices, structure, processes and ethics.

12.4 TYPES OF CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility is traditionally broken into four categories: environmental, philanthropic, ethical, and economic responsibility.

i) Environmental Responsibility
ii) Ethical Responsibility
iii) Philanthropic Responsibility
iv) Economic Responsibility

i) Environmental Responsibility: Environmental responsibility refers to the belief that organisations should behave in as environmentally friendly a way as possible. It’s one of the most common forms of corporate social responsibility. Some companies use the term “environmental stewardship” to refer to such initiatives. Companies that seek to embrace environmental responsibility can do so in several ways:

- Reducing pollution, greenhouse gas emissions, the use of single-use plastics, water consumption, and general waste

- Increasing reliance on renewable energy, sustainable resources, and recycled or partially recycled materials
- Offsetting negative environmental impact; for example, by planting trees, funding research, and donating to related causes

ii) Ethical Responsibility: Ethical responsibility is concerned with ensuring an organisation is operating in a fair and ethical manner. Organisations should embrace ethical responsibility aim to achieve fair treatment of all stakeholders, including leadership, investors, employees, suppliers, and customers.

Firms can embrace ethical responsibility in different ways. For example, a business might set its own, higher minimum wage if the one mandated by the state or federal government doesn't constitute a "livable wage." Likewise, a business might require that products, ingredients, materials, or components be sourced according to free trade standards. In this regard, many firms have processes to ensure they're not purchasing products resulting from slavery or child labor.

iii) Philanthropic Responsibility: Philanthropic responsibility refers to a business's aim to actively make the world and society a better place. In addition to acting as ethically and environmentally friendly as possible, organisations driven by philanthropic responsibility often dedicate a portion of their earnings. While many firms donate to charities and nonprofits that align with their guiding missions, others donate to worthy causes that don't directly relate to their business. Others go so far as to create their own charitable trust or organisation to give back.

iv) Economic Responsibility: Economic responsibility is the practice of a firm backing all of its financial decisions in its commitment to do good in the areas listed above. The end goal is not to simply maximize profits, but positively impact the environment, people, and society.

12.5 PRINCIPLES OF CORPORATE GOVERNANCE

The Principles of Corporate Governance are:

i) Accountability: Accountability is a responsibility to explain the results of one's decisions taken in the interest of others. In the context of corporate governance, accountability implies the responsibility of the Chairman, the Board of Directors and the chief executive for the effective use of company's resources in the best interest of company and its stakeholders.

Accountability means to be answerable and be obligated to take responsibility for one's actions. By doing so, two things can be ensured-

That the management is accountable to the Board of Directors.

That the Board of Directors is accountable to the shareholders of the company.

This principle gives confidence to shareholders in the business of the company that in case of any unfavourable situation, the persons responsible will be held in charge.

ii) Fairness: Fairness gives shareholders an opportunity to voice their grievances and address any issues relating to the violation of shareholder's rights. This principle deals with the protection of shareholders' rights, treating all shareholders equally without any personal favoritism, and granting redressal for any violations of rights.

iii) Transparency: Transparency means the quality of something which enables one to understand the truth easily. In the context of corporate governance, it implies an accurate, adequate and timely disclosure of relevant information about the operating results etc. of the corporate enterprise to the stakeholders. In fact, transparency is the foundation of corporate governance; which helps to develop a high level of public confidence in the corporate sector. For ensuring transparency in corporate administration, a company should publish relevant information about corporate affairs in leading newspapers, e.g., on a quarterly or half yearly or annual basis.

Providing clear information about a company's policies and practices and the decisions that affect the rights of the shareholders represents transparency. This helps to build trust and a sense of togetherness between the top management and the stakeholders. It ensures accurate and full disclosure timely on material matters like financial condition, performance, ownership.

iv) Independence: Independence means the ability to make decisions freely without being unduly influenced. Decisions should be made freely without having any personal interest in the company. It ensures the reduction in conflict of interest. Corporate governance suggests the appointment of independent directors and advisors so that decisions are taken responsibly without influence.

Good corporate governance requires independence on the part of the top management of the corporation i.e., the Board of Directors must be strong non-partisan body; so that it can take all corporate decisions based on business prudence. Without the top management of the company being independent; good corporate governance is only a mere dream

v) Social Responsibility: Apart from the 4 main principles, there is an additional principle of corporate governance. Company social responsibility obligates the company to be aware of social issues and take action to address them. In this way, the company creates a positive image in the industry. The first step towards Corporate Social Responsibility is to practice good Corporate Governance.

12.6 NEED FOR CORPORATE GOVERNANCE

The need for corporate governance is highlighted by the following factors:

i) Wide Spread of Shareholders: Today a company has a very large number of shareholders spread all over the nation and even the world; and a majority of shareholders being unorganized and having an indifferent attitude towards corporate affairs. The idea of shareholders' democracy remains confined only to the law and the Articles of Association; which requires a practical implementation through a code of conduct of corporate governance.

ii) Changing Ownership Structure: The pattern of corporate ownership has changed considerably, in the present-day-times; with institutional investors (foreign as well Indian) and mutual funds becoming largest shareholders in large corporate private sector. These investors have become the greatest challenge to corporate managements, forcing the latter to abide by some established code of corporate governance to build up its image in society.

iii) Corporate Scams or Scandals: The event of Harshad Mehta scandal, which is perhaps, one biggest scandal, is in the heart and mind of all, connected with corporate shareholding or otherwise being educated and socially conscious. The need for corporate governance is, then, imperative for reviving investors' confidence in the corporate sector towards the economic development of society.

12.7 BENEFITS OF CORPORATE GOVERNANCE

i) Good Corporate Governance ensures corporate success and economic growth.
ii) Strong corporate governance maintains investors' confidence, as a result of which, company can raise capital efficiently and effectively.
iii) It lowers the capital cost.
iv) There is a positive impact on the share price.
v) It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organisation.

vi) Good corporate governance also minimizes wastages, corruption, risks and mismanagement.

vii) It helps in brand formation and development.

viii) It ensures organisation in managed in a manner that fits the best interests of all.

12.8 IMPORTANT ISSUES IN CORPORATE GOVERNANCE

There are several important issues in corporate governance and they play a great role, all the issues are interred related, interdependent to deal with each other. Each issue connected with corporate governance have different priorities in each of the corporate bodies. The issues are listed as below:

i) Value Based Corporate Culture: For any organisation to run in effective way, it needs to have certain ethics, values. Long run business needs to have based corporate culture. Value based corporate culture is good practice for corporate governance. It is a set of beliefs, ethics, principles which are inviolable. It can be a motto i.e. A short phrase which is unique and helps in running organisation, there can be vision i.e., dream to be fulfilled, mission and purpose, objective, goal, target.

ii) Holistic View: This holistic view is more or less godly, religious attitude which helps in running organisation. It is not easier to adopt it, it needs special efforts and once adopted it leads to developing qualities of nobility, tolerance and empathy.

iii) Compliance with Transparency and Accountability: Disclosure, transparency and accountability are important aspect for good governance. Timely and accurate information should be disclosed on the matters like the financial position, performance etc. Transparency is needed in order that government has faith in corporate bodies and consequently it has reduced corporate tax rates from 30% today as against 97% during the late 1970s. Transparency is needed towards corporate bodies so that due to tremendous competition in the market place the customers having choices don't shift to other corporate bodies.

iv) Corporate Governance and Human Resource Management: For any corporate body, the employees and staff are just like family. For a company to be perfect the role of Human Resource Management becomes very vital, they both are directly linked. Every individual should be treated with individual respect, his achievements should be recognized. Each individual staff and employee should be given best opportunities to prove their worth and these can be done by Human Resource Department. Thus, in Corporate Governance, Human Resource has a great role. 6. Innovation: Every Corporate body needs to take risk of innovation i.e., innovation in products, in services and it plays a pivotal role in corporate governance.

v) Necessity of Judicial Reform: There is necessity of judicial reform for a good economy and also in today's changing time of globalisation and liberalisation. Our judicial system though having performed salutary role all these years, certainly are becoming obsolete and outdated over the years. The delay in judiciary is due to several interests involved in it. But then with changing scenario and fast-growing competition, the judiciary needs to bring reforms accordingly. It needs to speedily resolve disputes in cost effective manner.

vi) Globalisation helping Indian Companies to become Global Giants based on Good Governance: In today's age of competition and due to globalisation, our several Indian Corporate bodies are becoming global giants which are possible only due to good corporate governance.

vii) Lessons from Corporate Failure: Every story has a moral to learn from, every failure has success to learn from, in the same way, corporate body have certain policies which if goes as a failure they need to learn from it. Failure can be both internal as well as external whatever it may be, in good governance, corporate bodies need to learn from their failures and need to move to the path of success

The Companies Act, April 2013

The Companies Act 2013 has formulated Section 135 and is landmark legislation that makes Indian companies answerable to the government about their CSR expenditure. India is the first country to make the incorporation of Corporate Social Responsibility activities mandatory for qualifying companies. It is, for sure, a remarkable step towards growth, overall development and humanity.

Be it a private sector company or a public sector company, Corporate Social Responsibility CSR has to be adhered to by all listed companies. If a company falls in either of the following criteria for compulsion, they need to form a CSR committee. Companies:

- That has a net worth of Rs. 500 crores or more, or
- That have an annual turnover of Rs. 1000 crores or more, or
- That generates a profit of Rs. 5 crores or more.

During any financial year, if any of the above financial strength criteria are met then the rules of Section 135 apply. Prior to the compulsion of the Corporate Social Responsibility clause, CSR activities in India were voluntary for the listed companies. However, it was mandatory for them to disclose their CSR spending to their shareholders. Under the Companies Act, the preference has to be given to local areas in which the company operates.

12.9 TYPES OF CSR ACTIVITIES UNDER SCHEDULE VII OF THE COMPANIES ACT 2013

The following are the types of CSR activities in India that the qualifying listed companies under the Companies Act 2013 can contribute to:

i) Eradicating Hunger, Poverty and Malnutrition: This can be done by promoting health care and sanitation in rural areas. This can also be a contribution to the Swach Bharat Kosh which has been set-up by the Central Government. Blood donation camps can also be done as a part of a company's CSR initiative.

ii) Promoting Education: This can be inclusive of providing education to children and essential vocational skill training that enhance employment or special education among women, elderly and the differently-abled.

iii) Promoting Gender Equality: Women empowerment programmes can be launched by setting up affordable hostels for women. Establishing old age homes, daycare centers and other facilities for senior citizens is another option. Orphanages can also be set up and managed by the **CSR committee.**

iv) CSR Initiatives Related to the Environment: Contributions can be made towards environmental sustainability. Activities that help in maintaining the ecological balance, protection of flora and fauna, promote animal welfare, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund set-up by the Central Government.

v) Protection of National Heritage, Art and Culture: This can include the restoration of heritage sites, buildings of historical importance and works of art. public libraries can be set up as well.

vi) Contributions to various funds: Contributions would be made to the Prime Minister's National Relief Fund or any other fund set up by the Central Government, for welfare, development and relief of the schedule caste, tribes, other backward classes, women and minorities**.**

Contributions provided to the development of technology located within the central government approved academic institutions**.**

Contributions It can be made towards rural development projects and slum area development.

12.10 CORPORATE GOVERNANCE IN INDIA

i) The Ministry of Corporate Affairs (MCA) and Securities and Exchange Board of India (SEBI) is responsible for corporate governance initiatives in India. The corporate sector of India faced major changes in the 1990s after liberalisation.

ii) In the 1900s, SEBI regulated corporate governance in India through various laws like the Security Contracts (Regulation) Act, 1956; Securities and Exchange Board of India Act, 1992; and the Depositories Act of 1996.

iii) In February 2000, SEBI established the first formal regulatory framework for corporate governance in India owing to the recommendations of the Kumar Mangalam Birla Committee. It was undertaken to improve the standards of corporate governance in India. This came to be known as clause 49 of the Listing Agreement.

iv) A major corporate governance initiative was undertaken in 2002 when the Naresh Chandra Committee on Corporate Audit and Governance furthered their recommendations addressing multiple governance issues.

v) MCA and the Government of India have set up multiple organisations and charters like the Confederation of Indian Industry (CII), National Foundation for Corporate Governance (NFCG), Institute of Chartered Accountants of India (ICAI).

12.11 SEBI CODE OF CORPORATE GOVERNANCE

To promote good corporate governance, SEBI (Securities and Exchange Board of India) constituted a committee on corporate governance under the chairmanship of Kumar Mangalam Birla. On the basis of the recommendations of this committee, SEBI issued certain guidelines on corporate governance; which are required to be incorporated in the listing agreement between the company and the stock exchange.

An overview of SEBI guidelines on corporate governance is given below, under appropriate heads:

(A) BOARD OF DIRECTORS

The following give details regarding Board of Directors code to be executed in corporate governance.

(i) The Board of Directors of the company shall have an optimum combination of executive and nonexecutive directors.

(ii) The number of independent directors would depend on whether the chairman is executive or non-executive. In case of non-executive chairman, at least, one third of the Board should comprise of independent directors; and in case of executive chairman, at least, half of the Board should comprise of independent directors. The expression 'independent directors' means directors, who apart from receiving director's remuneration, do not have any other material pecuniary relationship with the company.

(B) AUDIT COMMITTEE

(1) The company shall form an independent audit committee whose constitution would be as follows:

(i) It shall have minimum three members, all being non-executive directors, with the majority of them being independent, and at least one director having financial and accounting knowledge.

(ii) The Chairman of the committee will be an independent director.

(iii) The Chairman shall be present at the Annual General Meeting to answer shareholders' queries.

(2) The audit committee shall have powers which should include the following:

(i) To investigate any activity within its terms of reference

(ii) To seek information from any employee

(iii) To obtain outside legal or other professional advice

(iv) To secure attendance of outsiders with relevant expertise, if considered necessary.

(3) The role of audit committee should include the following:

(i) Overseeing of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.

(ii) Recommending the appointment and removal of external auditor.

(iii) Reviewing the adequacy of internal audit function

(iv) Discussing with external auditors, before the audit commences, the nature and scope of audit; as well as to have post-audit discussion to ascertain any area of concern.

(v) Reviewing the company's financial and risk management policies.

(C) REMUNERATION OF DIRECTORS

The following disclosures on the remuneration of directors shall be made in the section on the corporate governance of the Annual Report:

(i) All elements of remuneration package of all the directors i.e., salary, benefits, bonus, stock options, pension etc.

(ii) Details of fixed component and performance linked incentives, along with performance criteria.

Board Procedure Some Points in this Regards are

(i) Board meetings shall be held at least, four times a year, with a maximum gap of 4 months between any two meetings.

(ii) A director shall not be a member of more than 10 committees or act as chairman of more than five committees, across all companies, in which he is a director.

(D) MANAGEMENT

A Management Discussion and Analysis Report should form part of the annual report to the shareholders; containing discussion on the following matters (within the limits set by the company's competitive position).

(i) Opportunities and threats

(ii) Segment-wise or product-wise performance

(iii) Risks and concerns

(iv) Discussion on financial performance with respect to operational performance

(v) Material development in human resource/industrial relations front.

(E) SHAREHOLDERS

i) In case of appointment of a new director or reappointment of a director, shareholders must be provided with the following information:

1. A brief resume (summary) of the director

2. Nature of his expertise

3. Number of companies in which he holds the directorship and membership of committees of the Board.

(ii) A Board Committee under the chairmanship of non-executive director shall be formed to specifically look into the redressing of shareholders and investors' complaints like transfer of shares, non-receipt of Balance Sheet or declared dividends etc. This committee shall be designated as 'Shareholders / Investors Grievance Committee'.

(F) REPORT ON CORPORATE GOVERNANCE

There shall be a separate section on corporate governance in the Annual Report of the company, with a detailed report on corporate governance.

(G) COMPLIANCE

The company shall obtain a certificate from the auditors of the company regarding the compliance of conditions of corporate governance. This certificate shall be annexed with the Directors' Report sent to shareholders and also sent to the stock exchange

Various Forums of corporate Governance

The National Foundation for Corporate Governance (NFCG) has been set up by the Ministry of Company Affairs, Government of India, in partnership with Confederation of Indian Industry (CII), Institute of Company Secretaries of India (ICSI) and Institute of Chartered Accountants of India (ICAI) with the goal of promoting good corporate governance practices in India. NFCG will act as a nodal agency and will initially evolve corporate governance principles in three areas — institutional investors, independent directors and auditing. The government is now also working on setting up national centers for corporate governance at various Indian Institutes of Management.

The NFCG (National Foundation for corporate governance) has constituted for achieving the following objectives:

- Creating awareness for implementing good corporate governance practices is needed both at the level of individual corporations and for the economy as a whole. The foundation would provide a platform for quality discussions and debates amongst academicians, policy makers, professionals and corporate leaders through workshops, conferences, meetings and seminars.
- Encouraging research capability in the area of corporate governance is required in the country and providing key inputs for developing laws and regulations which meet the twin objectives of maximizing wealth creation and fair distribution of this wealth.
- Working with the regulatory authorities at multiple levels to improve implementation and enforcement of various laws related to corporate governance.

- In close coordination with the private sector, to instill a work commitment to corporate governance reforms and facilitates the development of a corporate governance culture.
- Cultivating international linkages and maintaining the evolution towards convergence with international standards and practices for accounting, audit and non-financial disclosure. — Setting up of "National Centers for Corporate Governance' across the country, which would provide quality training to Directors and aim to have global recognition and acceptance.
- NFCG is committed to creating awareness about the importance of implementing good corporate governance practices both at the level of individual corporations and for the economy as a whole. It organizes workshops, conferences, meeting and seminars to discuss and disseminate information about the best practices in the area of corporate governance. The foundation would provide a platform for quality discussions and debates amongst academicians, policy makers, professionals and corporate leaders, both from India as well as abroad. The Foundation organizes these programmes on its own as well as in collaboration with its partners.

12.12 THE INSTITUTE OF COMPANY SECRETARIES OF INDIA (ICSI)

The vision of ICSI is to be a global leader in development of professionals specializing in Corporate Governance. For promoting good corporate governance, the mission of ICSI is to continuously develop high caliber professional ensuring good corporate governance and effective management and to carry out proactive research and development activities for protection of interest of all stakeholders thus contributing to public good.

ICSI defines Corporate Governance as, "the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility, for sustainable development of all stakeholders".

The ICSI conducts various programs throughout India covering several topics like corporate governance, company law, secretarial audit and compliances, securities laws and capital markets, financial markets etc, for development of corporate governance practices in Indian Corporate Sector. To achieve excellence in various secretarial practices for good corporate governance ICSI has issued following Secretarial standards:

1. Secretarial Standard on Meetings of the Board of Directors

2. Secretarial Standards on General Meetings

3. Secretarial Standard on Dividends Further, to guide its members and others to comply with the Secretarial Standards and other regulations,

ICSI has issued Guidance Notes on the following topics: — Meetings of the Board of Directors — General Meetings — Passing of resolution by Postal ballot— Dividend — Buy Back of securities — Board's Report the Institute regularly brings out Publications covering various aspects of Company Law and role of Company Secretary.

The institute has also taken initiatives to awaken Indian Corporate Sector in Corporate Governance. For this purpose, the Institute since 2001, is conferring 'ICSI National Award for Excellence in Corporate Governance' annually to the participating companies in order to promote corporate governance culture in Indian corporate sector.

12.13 THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA (ICAI)

In the developed nations, high quality accounting standards reduce uncertainty and increase overall efficiency and investor confidence. The Accounting Standards issued by The Institute of Chartered Accountants of India (ICAI) serve this objective. The ICAI has issued 29 Accounting Standards covering, interalia, disclosure of accounting policies, valuation of inventories, amalgamation, interim financial reporting, financial reporting of interest in joint venture, related party disclosures etc. Such accounting standards are based on the generally

Organisation for Economic Co-operation and Development (OECD)

The Organisation for Economic Co-operation and Development (OECD) is a unique forum where the governments of 37 democracies with market-based economies collaborate to develop policy standards to promote sustainable economic growth. The OECD provides a setting where governments can compare experiences, seek answers to common challenges, identify good practices, and develop high standards for economic policy. Accepted accounting assumptions of going concern, consistency and accrual basis

The six OECD Principles are:

i) Ensuring the basis of an effective corporate governance framework

ii) The rights and equitable treatment of shareholders and key ownership functions

iii) Institutional investors, stock markets, and other intermediaries

iv) The role of stakeholders in corporate governance

v) Disclosure and transparency

vi) The responsibilities of the board

1. Ensure the basis of an effective corporate governance framework: The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.

2. The rights and equitable treatment of shareholders and key ownership function: The corporate governance framework should protect and facilitate the exercise of shareholders' rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.'

Basic shareholder rights should include the right to:

i) Secure methods of ownership registration;
ii) Convey or transfer shares;
iii) Obtain relevant and material information on the corporation on a timely and regular basis;
iv) Participate and vote in general shareholder meetings;
v) Elect and remove members of the board; and
vi) Share in the profits of the corporation.

3. The Institutional investors, stock markets, and other intermediaries: 'The corporate governance framework should provide sound incentives throughout the investment chain and provide for stock markets to function in a way that contributes to good corporate governance.'

- All shareholders of the same series of a class should be treated equally
- Insider trading and abusive self-dealing should be prohibited
- Members of the board and key executives should be required to disclose to the board whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the corporation.

4. The role of stakeholders in corporate governance: The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

5. Disclosure and transparency: The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

To get a better understanding of the role disclosure and transparency plays in corporate governance.

6. The responsibilities of the board: The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

LET US SUM UP

This unit gives clear understanding of the concept of corporate governance and the principle of corporate governance clearly. Studying the concept of Corporate Governance highlights the necessity of transparency in company's operations. It also highlights the board of directors' role and shareholders right clearly. This also ensures that the interests of all shareholders like majority as well as minority shareholders are safeguarded. Also, it explains the important issues met in India which enrich reader's understanding of corporate governance more clearly. It gives wider explanation of corporate governance in India entail the reader to understand what is the perspective of corporate governance in India.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. Corporations are controlled and directed by which one of the following?

a) Corporate Ethics b) Corporate Governance

c) Corporate Codes d) Corporate Mechanism

2. Corporate governance involves the exercise of control over a company's ___________.

a) Finance and Accounting

b) Manufacturing facilities

c) Entire Corporate Direction

d) Marketing and Human Resources

3. Component of Corporate Culture includes __________.

a) Vision and Values b) Practice and Place

c) Narrative and Place d) All the above

4. Good Corporate Governance ensure ___________.

a) Corporate Success b) Economic Growth

c) Minimize the risk d) All the above

5. Criteria to form a CSR committee for Private and Public limited Companies _________.

a) Net Worth of Rs. 500 corers or more

b) Annual Turnover of Rs. 1000 crores or more

c) Annual Profit of Rs. 5 crores or more

d) Any one of the above

GLOSSARY

Corporate Governance	:	Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies.
Corporate Social Responsibility	:	Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.
Transparency	:	Transparency implies openness, communication, and accountability. Transparency is practiced in companies, organisations, administrations, and communities.
Accountability	:	Accountability is an assurance that an individual or organisation is evaluated on its performance or behavior related to something for which it is responsible.

Corporate Culture : Corporate culture, also known as company culture, refers to a set of beliefs and behaviors that guide how a company's management and employees interact and handle external business transactions.

Stakeholders : A stakeholder is a party that has an interest in a company and can either affect or be affected by the business. The primary stakeholders in a typical corporation are its investors, employees, customers, and suppliers.

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ANSWER TO CHECK YOUR PROGRESS

1.b) 2.c) 3.d) 4. d) 5. d)

UNIT 13

ECONOMIC SYSTEMS

STRUCTURE

OVERVIEW

The present-day economic environment of business is a complex one. The business sector has economic relation to the government, capital market, household sector and abroad sector. These different sectors together influence the trends and structure of the economy. The form and functioning of the economy vary widely. The design and structure of any economic system is conditioned by the socio – political arrangements. Such arrangements have relevance from the standpoint of macroeconomic decision making.

For example, under a democratic set- up, the public exercise an influence, direct or indirect, through a system of voting, on the nature of decision taken by the government. Under dictatorship, one ruler takes the crucial decision for the entire country. Under a parliamentary system, most decisions are processed by the Cabinet Ministers, whereas under presidential form of government, the president acts as the real manager of the state: it is he who takes or makes decisions similarly the macro decision making is more decentralized under a federal from of government than under a unitary from.

LEARNING OBJECTIVES

After studying this unit, you will be able to;

- list out the basic indicators of economic system
- describe the various types of economic system
- discuss the merits and demerits of capitalism, socialism and mixed economy.

13.1 INTRODUCTION

The economic system in a country decides the development prospects to a great extent. Government regulation of economic activities depend to a very large extent on the nature of the economic system. We face no difficulty in making economic progress if a country could have a laissez faire economy. The economic environment of business is determined according to the economic system obtained within country. The economic activities are mainly framed with a purpose of earning, spending and savings. An economy can be explained in terms of the system of production, consumption, selling and exchange transactions. Production of goods is very important to the description of an economy. Without production in a country, system cannot be worked out and other activities are also crucial i.e., consumption, selling and exchange transactions. In economic system market economy, economic growth is a must. Economic growth is everybody's concern and it may be defined as a rate of expansion in a country.

The changing approaches to the study of economic growth indicate that conceptual base of development has been evolving the onset of the Industrial Revolution. This conceptual evolution born out of environmental changes has been co-extensive with the tempo of economic development in society. Unless people save and invest, productive activity cannot be started. It is here that the economic growth in a country play a very important role. In the initial stages of economic development, the task of identifying people to save and of collecting these savings, especially in villages and semi – urban sectors of the economy. There are three important types of economic system viz. Capitalism, socialism and mixed economy.

13.2 CAPITALISM

Capitalism is a system of economic organisation characterized by private ownership of the means of production and distribution. (Land, Factories, Roads etc.) and their operation for profit under predominantly competitive condition. Free enterprise, competition and private ownership of property play an important role in capitalist system.

The capitalist system is also known as 'Free enterprise economy'. In other words, "Laissez Faire" economic policy is followed in capitalist economy. Laissez faire implies a policy of non - interference by the government in the economic life of the country. Here, the state confines its activities to the maintenance of law and order with in the country, defending the country from foreign war and provides fair justice to the people, leaving trade and industry to take their own course. There is a private ownership of the means of production, individual decision making and use of the market mechanism in the capitalist system. Household and firms are the basic production units. There are two kinds of capitalist system.

i) Laissez Faire: In this type of capitalist system, the government intervention in the economy is absent and

ii) Regulated or mixed capitalism: In this type of capitalist system, there is a substantial amount of government intervention in the economic and industrial development.

Definition

In the words of Prof. R. T. Bye capitalism is "that system of economic organisation in which free enterprise, competition and private ownership of property generally prevail"

According to G.D.H Cole "capitalism is a system of production for profit under which instruments and materials of production are privately owned, the work is done mainly by hired labour, the product belonging to the capitalist owner or owners". According to Loucks, "Capitalism is a system of economic organisation featured by the private ownership and use for the private profit of man- made and nature made capital."

13.2.1 Characteristics of Capitalism

i) Private Property: Private ownership and control of property is considered as a natural right under capitalism. Private property provides incentives to individual to make the best use of their assets. Individuals can amass wealth and pass them to others at the time of death.

ii) Freedom of Enterprise: The advocates of capitalism believe that absence of government intervention leads to economic individualism and economic freedom. As a consumer he is free to spend his income as he chooses and as a producer, he is free to purchase the inputs and to organize them as he wishes for the purpose of producing in things that society wants.

iii) Competition: That is competition among sellers, among buyer and among workers. Under conditions of perfect competition, there will be several numbers of buyers and sellers who have a thorough knowledge of market conditions. There will be only one price offer a commonly at a time all over the market.

iv) Price System: The price system regulates all the economic activities of a capitalist economy. The price system is essentially a system of profits for firms and individual who are able to survive, and losses for those who are not.

v) Economic motivation and profit motive: Economic motivation means that individuals under capitalism are usually motivate by the desire for economic gain in their activities. Economic motivation takes the form of differences in wages, special prices for unusual accomplishments and special rewards.

vi) Government: Adam Smith advocated a minimum role for State in economic affairs. According to him, the government could perform the functions as to protect society from foreign attack, to establish the administration of justice within the country and to erect and maintain the public works and institution that private entrepreneurs cannot undertake privately.

vii) Inheritance: The right to give or acquire property in inheritance is allowed in capitalism.

viii) No Central Plan: Under the capitalist economy there is no central plan to guide and control the activities of various business concern. It is the market forces which influence the resource allocation investment decisions etc. and not the Government under the capitalist economy.

13.2.2 Merits of Capitalism

The major merits of capitalist economic system are:

i) Efficient Utilisation of Resources: Every producer tries to use the different factors of production to the best possible use to minimize cost of production to stand the competition.

ii) Democratic: Producers, consumers, the workers all enjoy economic freedom and are free to work as they like. Goods are produced according to liking and demand of consumers.

iii) Automatic balance in the system: The capitalism works automatically through price mechanism. The demand and supply i.e., price mechanism balances the imbalances in economy. With increase in demand of product the price rises which in turn attracts new producers to enter the market and hence supply increases resulting in decrease in price again.

iv) Efficiency properly rewarded: Both producers and laborer's work hard and with more efficiency as producers can more profits and laborer's get better wages.

v) Incentives for risks and uncertainties: Entrepreneurs are induced to invest more money even in the projects involving high risk by providing them incentives. This results in technological progress and new innovations, which involves great risks.

vi) Economic Growth: The capitalist countries have become rich and affluent and people of that country enjoy higher standard of living. This is because of presence competition also where producer tries to pro- duce at minimum cost and ultimately consumer is benefited.

vii) Encourages Capital Formation: The existence of capitalism is de- pendent upon the right to inherit the property and profit motive, because of which people have incentive to save a part their income which they can further invest to make more profits. Thus, this circle investment and saving leads to higher rate of capital formation.

13.2.3 Demerits of Capitalism

i) Wastage and misallocation of Resources: Under capitalism most of resources are wasted on advertisement and salesmanship and profits are produced to satisfy profit motive only and essential commodities are neglected production.

ii) Economic Instability: Business cycles affect consumer the most. They suffer both in periods in inflation (rising prices) and deflation (failing prices). The greatest depression of 1930 shook the very basis of many capitalist countries.

iii) Consumer's sovereignty is a myth: At times producers enjoy monopoly in the market and produces substandard product. So, it is the producer who influences the market and not consumer. Capitalism is basically a sellers' market where consumer has no freedom.

iv) Inequality to Wealth: An unplanned capitalist economy can be compared with a vehicle without a steering wheel. Artificial scarcity of goods is created by greedy entrepreneurs who earn profits to great extent while consumers ultimately suffer.

v) No freedom: In modern capitalist market one can find presence of group rivalries and price wars, price agreements etc. speculative practices become a part of system.

vi) Class Struggle: Rich are becoming richer and the poor poorer. The society gets divided in two classes – haves and have – nots. There is clash of interests. Laboure's demand high wages while the capitalists want to pay lower wages.

vii) Unemployment and Corruption: Corruption and unemployment has become a chronic disease in the capitalist system. In U.S.A over three million young people between 16-24 years cannot find jobs.

viii) Inflation: Inflation spreads throughout the world because of mutual international relations and trade. Also, inflation is because of nature of modern capitalism in non – productive expenditure primary for military purposes by the state.

13.3 SOCIALISM

Socialism is an economic system where the means of production are either owned or managed by the state and where the investment structure, consumption, allocation of resources, distribution of income etc. are regulated and directed by the state. The political economy of socialism is a living, rapidly developing science. Its foundations were laid by Karl Marx and Federic Engels, who revealed the tendencies in the development of capitalism that were leading inevitably to its downfall and triumph of the communist mode of production".

In a socialized economy, labour becomes directly social and the ownership of the means of production becomes the equality of every person of society in relation to the means of production and everyone gets their share of common wealth in proportion to their labour input. "An essential feature of the law of socialist accumulation is that its operation is accompanied by the development and consolidation of social property and a steady rise in the wellbeing of the people"

Under socialism system the workers of industry, agriculture, transport and other sectors of the economy themselves become the joint owners of the means and results of production. Under socialism, the labour of the both the individual workers and the working collective is integrated in the process of production itself into the aggregate social labour as an indispensable component.

The main features of a socialist system are as under;

i) Equitable Distribution of Income: Socialism is better for peace and happiness. In socialist countries, an equitable distribution of income is an important feature. Equitable distribution of income does not mean that there is a perfect equality in income distribution. There may be wage differentials, depending on the nature and requirements of the nature of the job. by fixing the appropriate wage rate and other economic benefits, the objective of equitable income distribution may be achieved.

ii) Government Ownership: Another feature of socialist system is government ownership. Here, the mean of production is either owned by the Government or its use is governed by the Government. It becomes easy to achieve the desired pattern of resource allocation if the state owns almost the whole of the means of production. Socialist believe in working a political party, by educating public opinion, to win enough votes to put their programme peacefully into effect.

iii) Economic Laws: In socialist system, all working people have an interested in the understanding and application of the economic, law of socialism. The main change in economic conditions in a country that has taken the road of building socialism leads to the economic laws of socialism coming into being and beginning to operate. These laws have some special features / conditions by the specific socioeconomic structure of society.

iv) Plan of Action or Central Authority: The liberal socialist economy preserves to a considerable extent free choice of consumption. The socialist economies generally have a uniform plan of action or central authority like the central planning agency to formulate the national plan for development. Socialism stipulates an authority which can set and ac-accomplish socio – economic goods of authority, which must have power to direct the means of production according to some plan of action. In socialist system, the central planning authority commands the pattern resource utilisation and development.

13.3.1 Merits of Socialism

i) Better Allocation and Utilisation of Resources: In socialist economy resources are owned and controlled by the state, so no wastage and duplication take place. There is no self-interest of private individuals and so no profit motive. 'What to produce and how much to produce' is done according to what is really useful to the people.

ii) Elimination of Unemployment: Central planning authority on behalf of state gives boost to employment. It also ensures that all resources are put to their best use.

iii) No Cyclic Fluctuations: As socialist economy is a planned economy, there is no surplus and deficiency which results in smooth working of the economy. There are no business fluctuations.

iv) No Class Struggle: There is collective ownership of different factors of production which ensures the best utilisation of available resources of economy and equal distribution. So, there is no gap between haves and have- nots.

v) Reduction in Inequality of income: Since there is no gap between haves and have – nots there is equality of incomes. Equal chances are given to all in all the field like occupation, education etc.

13.3.2 Demerits of Socialism

The following are shortcomings of socialism;

i) Bureaucratisation: The owners in private enterprises take interest in their work in capitalism. But in socialism government gets all the work done through their people who do not take so much interest and lack enthusiasm as people of private enterprise.

ii) Lack of Incentives: Major disadvantages of socialism is that people do not have incentive for greater work, efficiency and enterprise. People get fixed wage and salaries from government so they lack initiative and incentive.

iii) Red Tapism: In socialist system the decisions are delayed as files go on moving from one place to another which result in wastage to time and money also.

iv) Concentration of Economic Power in the hands of State: The power gets concentrated in the hands of government or state, and thus government may not do work according to desires and preferences of the consumers. Economic freedom and Democratic rights of people are endangered because of danger of authorities.

v) Promotes Corruption: The government being ultimate authority the govt. servants often become dishonest and corrupt while doing work of people.

vi) Misallocation of Resources: Allocation of resources is not made according to desires demands of the consumers since there is no place for price mechanism.

vii) No Consumer Sovereignty: Wants of consumer are generally not taken into consideration for production of various goods. There is rationing system in distribution of goods as well which is against consumer freedom.

13.3.3 Impact of Capitalism on Business

The considerable freedom of enterprise extended under capitalism to the businessman may lead the entrepreneurs to taken on any business as they wish, as there is a minimum of government intervention. Since there is enough scope for amassing wealth strategic industries needing a huge amount of capital can be started. The entrepreneurs with the profit motive may exercise strenuous effort to increase productivity, thereby increasing the economic wealth of nation.

The ultimate suffers in the capitalist economy are the consumers, as the entrepreneurs with the sole aim of making profits may spend their wealth in non-productive industries. Concentration of economic power may affect largely the initiative of small entrepreneurs. The essential services organisation like post and Telegraphs, Railways etc., If handed over to private sector, may be found effective, but in the capitalist economy, people will run after money and the social welfare will be thrown in the air.

However, the business in order to excel those in the other nations, will introduce the advanced techniques, absorb the latest available technology and improve the economic position of the nation. Just to push up sales, there will be a lot of expenditure spent on advertising which in the way helps the ultimate consumers derive benefits out of the products, but bear the additional cost.

13.4 MIXED ECONOMY

Mixed economy is the combination of capitalism and socialism. Under the mixed economy, the advantage of both capitalism and socialism are incorporated and at the same time their evils are avoided. Under mixed economy, both the private and the public sector's function side by side. The Government directs economic activity towards certain socially important areas of the economy and the balance is subject to the operation of the price mechanism. The public and private sectors work in a co-operative manner to attain the social objectives under a common economic plan. The private sector constitutes an important part of the economy and considered as an important instrument of economic growth. India is regarded as the best example of mixed economy in the world.

The following are the main characteristic of mixed economy;

i) Co-existence of the Private and Public Sectors: Co – existence of the Private and public sectors is the outstanding feature of mixed economy. In mixed economy, both public sector as well as private sec- tor industries will be functioning. Certain industries will be in the public sector and certain industries in the private sector. Private individuals and firms own private sector industries. Profit will be the primary motive of private sector industries. In public sector, industries are owned and managed by the Government. Public industries will also have profit motive but that too for the promotion of social welfare.

ii) Existence of Joint Sector: Joint Sector is one where both Government and Private individuals establish an organisation jointly by contributing the necessary capital.

iii) Regulation of Private Sector: Under mixed economy, Government exercises strict control and regulation over private sector industries.

iv) Planned Economy: The entire economic structure is subject to the planning of the Government. Mixed economy is a planned economy. The planning commission decides the objectives, targets and allocation of resources etc.

v) Private Property: Under mixed economy private firms and individuals have right to own and use property.

vi) Provision of Social Security: Under mixed economy, Government takes steps to provide society security.

vii) Motive of Business Concerns: The motive of the business concern is profit but coupled with the objective of social welfare.

viii) Reduction of Inequalities of Income and Wealth: The Government takes steps to reduce inequalities of income and wealth

ix) Complete Economic Freedom: There is complete economic freedom in mixed economy. Hence, the consumer is free to buy any commodity they like.

13.4.1 Merits of Mixed Economy

i) There will be competition between public and private industries, which will result in greater efficiency and production.

ii) The profit of public sector industries goes to the Government and as a result inequalities of income will be reduced.

iii) In a mixed economy, economic activities are carried out as per plan. The entire economic system is subject to planning of the Government.

iv) The economic activities take place in a planned manner. So, there will be economic stability.

v) Goods are produced as per the wishes of the consumers, which results in consumer's sovereignty.

vi) In mixed economy, freedom of enterprise and profit motive are the important features. Further there is competition between public and private sectors. These factors increase efficiency, initiative, innovation and productivity.

vii) Mixed economic system gives importance to the promotion of social welfare. Under this system, both private and public sectors work for the welfare of people.

viii) Under mixed economy, individual rights are protected. People have freedom to buy any commodity.

13.4.2 Demerits of Mixed Economy

i) There is unhealthy competition between private and public sectors.

ii) There is no freedom to private sector. This is because Government regulates private industries through its various regulations and licensing.

iii) Inefficiency of public sector is another demerit of mixed economy. They may suffer heavy losses. People will have to bear these losses.

iv) The objects and targets to economic planning also may not be achieved.

v) On account of capital scarcity, Government regulation and control, the growth of private sector may be less than what is fixed in plan. It may

vi) lead to unemployment and uncertainties.

vii) There is always a threat of nationalisation in the mixed economic system because of which the private sector does not work actively.

viii) In spite of the defects in the mixed economy, it has become popular in some countries. India is one of the important countries, which adopted mixed economy.

LET US SUM UP

The economic System in a country decides the development prospects to a great extent. Economic system is a system adopted to utilize the country's resources for the satisfaction of public needs and wants. The important economic factors are national, institutional, inter- dependent, scarce resources, need satisfaction etc. There are three important types of economic system namely capitalism, socialism and mixed economy. The mechanism of capitalism is right to private property, freedom of enterprise, profit motive, competition and price mechanism. Socialism is an economic system where the means of production are either owned or managed by the state and where the investment structure, consumption, allocation of resources, distribution of income etc are regulated and directed by the State. Mixed economy is the combination of capitalism and socialism, co – existence of public and private sectors.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. Characteristics of Capitalism include___________.

a) Private Property b) Freedom of enterprise

c) Competition d) all the above

2. Draw backs of capitalism does not include___________.

a) Freedom of Choice

b) Problem of monopoly by consumers

c) Lot of unused facilities

d) all the above

3. Merits of Socialism does not include___________.

a) Classless society b) No competition

c) Bossism d) all the above

4. Maruti udyog Ltd is owned by___________.

a) Govt. of India

b) Suzuki Motor Corporation, Japan

c) Govt. of India and Suzuki Motor Corporation, Japan

d) all the above

GLOSSARY

Economic System	**:**	A system adopted to utilize the country's resources for the satisfaction of public needs and wants.

National Factors	**:**	Economic factors related to the country's overall economic development, such as GDP, inflation, and employment rates.
Institutional Factors	**:**	Economic factors related to the structures and organisations that govern the economy, such as government policies, regulations, and laws.
Inter-dependent Factors	**:**	Economic factors that depend on the interconnectivity and interdependence of various sectors of the economy.
Scarce Resources	**:**	Resources that are limited in supply, such as natural resources and human capital.
Capitalism	**:**	An economic system where the mechanism is based on right to private property, freedom of enterprise, profit motive, competition and price mechanism.
Socialism	**:**	An economic system where the means of production are either owned or managed by the state and where the investment structure, consumption, allocation of resources, distribution of income, etc. are regulated and directed by the State.

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Answers to Activity

1. (d) 2. (a) 3 . (c) 4. (c)

UNIT 14

ECONOMIC PLANNING

STRUCTURE

OVERVIEW

The need for planned, co-ordinate economic development under Government guidance was recognized all along the freedom movement. The Planning Commission was set up in March 1950. Its task was to make an assessment of the material, the capital and the most effective utilisation of these resources on a priority basis. India started planning seriously for the future. India's economic history may be broadly divided into the following phases –the period from 1947 to the mid-1950s, which was the preparatory phase in planning for development; the period from mid-1950s to the 1960s characterized by rapid industrialisation, the period of late 1960s and 1970 when the plans tried to focus on agriculture and finally the phase of liberalisation starting tentatively in the 1980s and gearing up from 1991 to the present.

It is important to note that much of the powers that the Central Government in India exercises in the economic field is not derived from the constitution of India, but from the system of planning that has been in operation since 1951. The Planning Commission that was created in 1950 as an executive organ of the Central Government is charged with the responsibility of determining the size of the Five-Year Plans and the Annual Plans of the State including the pattern of financing and allocating Central Plan assistance to the states. The planning Commission also determines the plan size of the Central Ministries and approves all major plans and projects of these Ministries. Planning assumes a commanding position in India's economic system.

LEARNING OBJECTIVES

After studying this unit, you will be able to;

- discuss the concept of Economic Planning
- explain the planning commission.
- elucidate the features of five-year plans implemented from time to time
- explain the failures of economic planning in India.

14.1 INTRODUCTION

Economic development has been closely linked with planning. Planning has become a craze in modern times, especially in under-developed and developing countries. The idea of planning acquired a tremendous support after the end of World War II since disrupted economies had to be rehabilitated and the underdeveloped economies were fired with the ambition of rapid economic development. There is a distinction between planned and the unplanned economy, yet planning has been universally accepted and the planned sector is expanding almost everywhere. For the under developed countries, desirous of accelerating development, planning is very significant element of progress. As Robbins says, "Planning is the grand panacea of our age" It is no longer a forbidden fruit.

Definition of Economic planning

According to **Professor Dickinson**, economic planning is the making of major economic decisions by a determinate authority on the basis of a comprehensive survey of the economy as a whole. Such decisions include what and how much to produce; how, when and where it is to be produced; and to whom it is to be allocated.

With reference to under developed countries, **Subrata Ghatak** defines economic planning as a conscious effort on the part of any government to follow a definite pattern of economic development in order to promote rapid and fundamental change in the economy and society.

Indian Economic planning

Indian planning like its economy is of a mixed nature. There is no scope for making a detailed physical plan for all sectors as a predominant part of the Indian economy continues to be in the private sector, the production of which is beyond the direct control of the planners. By setting physical targets for a host of industries, the plan documents provide a framework for exercising physical control in respect of these industries.

i) India is lacking in such preconditions of a planned economy as the state ownership of a decisive part of the means of production, etc. The directive or compulsory nature of plant exists only in the public sector of the Indian economy while the private sector, which constitutes a major part of the economy, has indicative characters.

ii) The plan of India, however, extends over the economy as a whole and encompasses then entire country and is therefore, complete and general.

iii) Indian planning is both physical planning and financial planning.

iv) As regards agricultural, the plan targets necessarily contain merely comprehensive indications as agriculture operates exclusively within the spheres of the private sector.

v) The preponderance of the private sector in the economy of the country also reacts upon the adjustment of the public sector.

In short economic planning is comprehensive in nature as in socialist economies but democratic in character unlike the socialist planning which is totalitarian.

14.2 THE PLANING COMMISSION

The Planning Commission of India was set in March 1950 with Jawaharlal Nehru as its chairman. The Commission comprises eight members:

- Prime Minister (Chairman)
- Four full –time members (including Deputy Chairman)
- Minister of Planning
- Minister of Finance
- Minister of Defence

With a change in the government at the center, a new Planning Commission is always formed. The main functions of the Planning Commission include:

i) Making real assessment of various resources and investigating the possibilities of augmenting resources;
ii) Formulating plans;
iii) Defining stages of plan implementation and determining plan priorities;
iv) Identifying the factors regarding economic growth and determining condition for its successful implementation.
v) Determining plan machinery at each stage of the planning process;
vi) Making period policy measures to achieve objectives and targets of plan; and
vii) Making additional recommendations as and when necessary.

The National Development Council

The National Development Council (NDC) has been working as the highest national forum for economic planning in India since August 6,

1952. Representatives of both, the Central and the State Government, come together in the NDC to finally approve all important decisions relating to planning.

The NDC is composed of the following members

- The Prime Minister of India
- All state Chief Ministers
- Member of Planning Commission

The NDC works as an advisory body where the State Government occupies an important position.

Functions

The following are the main functions of the National Development council:

i) To review the National Plan Periodically.

ii) To consider important questions related to social and economic policy affecting national development.

iii) To recommend various means of achieving aims and targets set out in the National Plan. The Council also recommends various measures for achieving active participation and co-operation of the people, for improving efficiency in administrative service, for ensuring fullest development in the backward regions and to the backward sections of the community, and also for building up resources for national development.

iv) The NDC also takes the final decision regarding allocation of central assistance for planning among different states. The "Gadgil formula" and all the systems followed in transferring central assistance for plan to states are finalized by the NDC.

v) The NDC approves the draft plan prepared by the planning commission.

Objectives of Planning in India

In a developing country like India, economic planning plays a very important role in economic development. The fundamental objective of the economic planning of our country is to accelerate the pace of economic growth and to provide social justice to the general masses. Thus, "growth with social justice "is the main objective of economic planning in India. The major objectives of economic planning in India can be summarized as follows:

- Attainment of higher rate of economic growth
- Reduction of economic inequalities
- Achieving full employment

- Attaining economic self-reliance
- Modernisation of various sectors
- Redressing imbalances in the economy.

14.3 FIVE YEAR PLANS

Let us now discuss the objective of each five-year plan.

a) First Five Year Plan (1951-52 to 1952-56)

The First Five Year Plan of India had mainly two objectives:

i) To correct the disequilibrium in the economy caused by World War II and the partition

ii) To initiate the process of all-round balanced development for ensuring a rising national income and improvement in the standard of living

Thus, the First Plan aimed at infrastructure such as, roads, railways, irrigation and power projects, and finally rehabilitate refugees. The plan also tried to lay a foundation for the future development of the economy and to attain social justice and to contain inflationary pressures. The plan fixed the targets for raising the rate of investment by 7 per cent and national income by 11 cents.

b) Second Five-Year Plan (1956-57 to 1960-61)

India's Second Five Year Plan was a bit more ambitious and bolder in comparison to the First Plan. The Second plan tried to lay the foundations of industrial progress, made a strong case for rural development, and also tried to achieve a socialistic pattern of society.

The Second Five Year plan had the following four main objectives

i) A sizeable increase in the income to raise the level of living in the country

ii) Rapid industrialisation with particular emphasis on the development of basic and heavy industries

iii) A large expansion of employment opportunities.

iv) Reduction of inequalities in income and wealth and a more even distribution of economic power.

c) Third Five Year Plan (1961-62 to 1965-66)

The Third plan accorded greatest importance to the achievement of balance regional development. It realized the need for a balanced approach and thus gave importance to the development of agriculture and rapid industrialisation through the promotion and development of heavy industries.

The main objective of the third Plan was to attain self-sustaining growth in the economy.

The following were the objectives of the Third Five Year plan:

i) To secure an increase in the national income of over 5 per cent annum, the pattern of investment being designed also to sustain the rate of growth during the subsequent plan period
ii) To achieve self-sufficiency in food grains and increase agricultural production to meet the requirement of industry and exports
iii) To expand basic industries like steel, chemicals, fuel, and power and establish machine-building capacity, so that the requirement of further industrialisation could be met indigenously within a period of ten years or so
iv) To utilise the manpower resources of the country to the fullest possible extent and to ensure a substantial expansion in employment opportunities
v) To establish progressively greater equality of opportunities and to bring about reduction in disparities in income and wealth and a more even distribution of economic power.

d) Fourth Five –Year Plan (1969-70 to 1973-74)

The Fourth Plan aimed at two main Objectives:

i) Growth with stability and
ii) Progressive achievement of self-reliance

Besides these two, the other objectives were as follows

i) Attaining social justice and equality along with care of the weak and under- privileged, and the common man
ii) generating more employment opportunities both in the rural urban areas
iii) assigning an increasing role to the public sector in the growth process
iv) correcting regional imbalances among different states.
v) The Fourth plan target for increasing the national income by 5.5 per cent per annum and for increasing the per capita income from Rs. 522 in 1968-69 to Rs. 643 in 1973-74.

e) Fifth Five Year Plan (1974-75 to 1978-79)

The draft of the Fifth Plan was presented before Parliament in December 1973 and became operative form April 1, 1974. The Period of the Fifth Plan was originally scheduled to be 1974-75 to 1978-79. But with the formation of the Janata government at the centre in March 1977, the Fifth Plan was terminated at the end of March 1978-a year before full term.

f) The Fifth plan had two main objectives

i) Removal of poverty
ii) Achievement of economic self-reliance

The Fifth plan designed certain special measures to increase the level of income and consumption of the lowest 30 per cent of the population who were living below the poverty line. The plan paid more attention to improving the loss of the rural poor. Moreover, for promoting social justice, the Fifth plan launched the Minimum Need programs for the first time. It was designed to provide a minimum level of social consumption to all sections of people throughout the country. The plan aimed to increase the per capita consumption expenditure of the lowest 30 per cent of the population from Rs25 per month to Rs 29 per month.

For achieving economic self-reliance, the plan aimed that elimination of special forms of external assistance, particularly food and fertilizer imports.

g) Sixth Five-Year Plan (1980-81 to 1984-85)

After the termination of the Fifth plan in 1977-78, the Janata government prepared its own draft of the sixth plan (1978-83). However, after the fall of Janata-Lok Dal government, the Congress (I) Government drew up a new Sixth Plan (1980-85). This draft was approved by the National Development Council on February 14, 1981.

The Sixth Plan laid down the following objectives

i) A signification step-up in the rate of growth of the economy by promoting efficiency in the use of resources and improved productivity.
ii) Strengthening the impulses of modernisation for the achievement of economic and technological self-reliance
iii) Progressive reduction in the incidence of poverty and unemployment
iv) Speedy development of indigenous sources of energy with proper emphasis on conservation and efficiency in energy use
v) improving the quality of life of the people in general with special reference to the economically and socially challenged sections though a minimum needs programme
vi) strengthening the re-distributive bias of public and service in favor of the poor and thus contributing to reduction in inequalities of income and wealth
vii) Promoting policies for controlling the growth of population through voluntary acceptance of the small family norms.
viii) Progressive reduction in regional inequalities of the development and in the diffusion of technological benefit.
ix) Bringing about harmony between the long-term and the short-term polices
x) promoting the active involvement of all sections of the people in the process of development through appropriate education, communication, and institutional strategies.

h) Seventh Five –Year Plan (1985-86 to 1989-90)

The National Development Council approved the draft Seventh Five-Year Plan on November 9, 1985. The plan laid emphasis on development, equity and social justice through the achievement of self-reliance, efficiency, and increased production. The Seventh Plan emphasized the policy for accelerating growth in food grains production, increasing employment opportunities, and raising productivity. Thus, the seventh plan was mainly devoted to “food, work and productivity”.

The National development Council approved the following objectives for the Seventh Five Year Plan:

i) Achievement of self- sufficiency in the production of food grains as well as increase in production of agro-raw materials like oil seeds cotton and sugarcane by raising the rate of growth of production in the agricultural sector

ii) Generation of productive employment for maximum utilisation of human resources and solving the problem of unemployment through the development for a large number of people.

iii) To promote efficiency and productivity through elimination of infrastructural bottlenecks and shortages by improving capacity utilisation and by promo;ting modernisation of plan and equipment and more extensive application and integration of science and technology.

iv) To promote equity and social justice through alleviation of poverty and reduction in inter-class disparities in respect of income and wealth.

v) To improve the quality of life and standard of living of the people in general with special reference to economically and socially weaker sections through a minimum needs programme.

vi) To promote speedy development of power generation and irrigation potential along with utilisation of existing capacities and also to conserve energy along with promotion of non-conventional energy sources

vii) To achieve self-reliance through attaining self-sufficiency in food grains and by reducing dependence on external finance through export promotion and import substitution

viii) To decentralize planning and to achieve full participation in development works along with promoting active involvement of all sections of population in the process of development through appropriate education, communication and institutional strategies.

ix) To ensure growth with stability by restraining inflationary pressures through non-inflationary financing

Annual Plans (1990-91 and 1991-92)

After the completion of the seventh plan by March 1990, the Planning commission initially decided to launch the Eighth plan as per its schedule-from April 1, 1990. Accordingly, the Planning Commission approved the approach to the Eighth Five –Year Plan (1990-95) on September 1, 1989 under the chairmanship of Rajiv Gandhi. The highlights of this approach were attainment of 6 per cent growth in GDP, a sharp regional focus, international competitiveness, self-reliance, poverty alleviation, and people participation.

But after the 1989 General Election, the National Front Government headed by V.P.Singh came to power at the centre. The National Development Council then approved a new approach to the Eight plan on September 18,1990, and finalized the total outlay of the eight plans at Rs.6,10,000 crore, including a public sector outlay of Rs.3,35,000 crore. The total outlay of the annual plan 1990-91 was fixed at Rs.64,717 crore including a public sector outlay of the Rs. 39,329 crores, the plan also envisaged a growth rate of 5.5 per cent in GDP, a domestic saving rate of 22 per cent, and employment growth of 3 per cent per annum.

Following the collapse of the National Front government, the new government, headed by Chandra Shekhar, expected to take a fresh look at the proposed size and other parameters of the Eight plan in view of the adverse impact of the Gulf crisis on the country's economy. The spurt in oil price aggravated the country's balance of payment position considerably. But before it could take a final decision about the Eight Plan, the Chandra Shekhar government collapsed, making way for another General Election in the month of May –June 1991.

After the formation of a new Congress (I) government at the centre, headed by P.V.Narasimha Rao, on June 21, 1991, fresh discussions were held about the fate of eight plans in the face of one of the worst financial crises faced by the country. On July 29, Prime Minister Narashimha Rao announced in Parliament that the Eight Plan would start from April1, 1992, taking the earlier two year (1990-91) and (1991-91) as Annual Plans.

h) Eight Five Year Plan (1992-93 to 1996-97)

The approach paper of the Eighth Plan approved by three different governments is 1989, 1990 and 1991. But due to political changes, the Eighth Five Plan could not commence from 1990-91. Following the installation of the Congress (I) Government in June 1991, the Planning Commission was reconstituted with pranab Mukherjee as its Deputy Chairman. The revised time frame of the eight plans was from 1992-93 to 1996-97.

In order to meet the challenges faced by the economy, the Eighth Plan finalized the following objectives:

i) Generation of adequate employee opportunities to achieve near-full employment by the turn of the century
ii) Containing population growth through people's active co-operation and an effective scheme of incentives and disincentives
iii) Universalisation of elementary education and eradication of illiteracy among people in the age group of 15 to 33 years.
iv) Provision of safe drinking water and primary health care including immunisation to all villages and the entire population and complete elimination of scavenging
v) Growth and diversification of agriculture to achieve self-sufficiency in food and generate surplus for exports.
vi) strengthening of infrastructure (energy, transport, communication, irrigation) in order to support the growth process on a sustainable basis.

i) Ninth Five-Year Plan (1997-98 to 2001-2002)

The National Development Council, in its meeting held on January 16, 1997, unanimously approved the draft approach paper Ninth Five Year Plan (1997-2002) with a call for collective effort to raise Rs.8,75,000 crore for implementing the plan.

The Planning Commission finalized the objective of the Ninth Plan in conformity with the common Minimum Programme (CMP) of the United Front government and also in consultation with the Chief Ministers of different states on maintenance of basic minimum services. The draft approach paper of Ninth plan outlines the following important objectives for the plan:

i) accelerating the rate of economic growth with stable prices
ii) Giving priority to agriculture and rural development with a view to generating adequate productive employment and eradicating poverty
iii) Attaining food and nutritional security for all, particularly the vulnerable sections of the society
iv) providing basic minimum needs of safe drinking water, primary health care facilities, universal primary education, shelter, and connectivity to all in a time bound manner
v) Containing the population growth of the country.
vi) Ensuring environmental sustainability of the development process through social mobilisation and participation of people at all levels
vii) Empowerment of people and all socially disadvantage group such as scheduled castes, scheduled tribes, and other backward classes and minorities as agents of socio-economic change and development.
viii) Promoting and developing people's participatory institutions like panchayati raj, co-operatives and self-help group.
ix) Strengthening efforts to build self-reliance

j) The Tenth Five-Year Plan (2002-07)

The Tenth Five-Year Plan was introduced on April 1, 2002. The Plan was launched in the background which has both positive and negative features. On the positive side, GDP growth rate in post-reforms period has improved making India one of the fast-growing developing countries. Population growth has declined to less than 2 per cent for the first time in five decades. The percentage of population below the poverty line has continued to decline. Literacy rate has increased from 52 per cent in 1991 to 65 per cent in 2001. Software and IT enabled in services sectors have emerged as new sources of strength creating confidence about India's potential to be competitive in the world economy.

On the negative side, growth has generated less than expected employment. The infant mortality rate has stagnated at 72 per 1,000 for several years. As many as 60 per cent of rural households and 20 per cent of urban households do not have a power connection. There is actual shortage of drinking water in urban areas. Land and forest degradation and over exploitation of ground are posing a serious threat to sustainability of food production. Population in the cities is rising rapidly.

Objectives and Targets

i) An average annual Growth rate of 8per cent

ii) Increase in per capita income at 6.4 per cent annum

iii) Enhancement of human well-being through (a) an adequate level of consumption of fixed and other types of consumer goods, (b) access to basic social service especially education, health, drinking, water and sanitation.

iv) Expansion of economic and social opportunities for individuals and group and greater participation for individual and groups in decision-making.

k) The Eleventh Five-Year Plan (2007-2012)

Eleventh Five Year Plan is the economic and development plan of India for the period 2007–2012.

The Main objectives of the Eleventh Five Year Plan

i) To create employment opportunities for an additional 70 million people by 2012: The Eleventh Plan proposes to create nearly 58 million jobs that aim to reduce unemployment by 5 per cent by the time the eleventh fie year plans come to an end.

ii) To improve the quality of life of all citizens, with a special focus on women and children. The Plan proposes to raise the rate of economic growth to an average of about eight per cent per year during the Eleventh Plan period.

iii) To reduce the incidence of poverty by at least ten percentage points. The Plan sets the poverty alleviation target of reducing the headcount ratio of people living below the poverty line.
iv) To reduce regional imbalances in income and development. The Plan seeks to correct the regional imbalances by providing for the accelerated and more equitable development of backward States and regions.
v) To make India a global knowledge economy. The Eleventh Plan proposes to raise the level of investment in education and research and development (R&D) to at least six per cent of GDP.
vi) To provide the infrastructure that is at par with international standards. The Plan proposes an investment of over Rs 24 lakh crore, which is near twice the investment made during the Tenth Plan.
vii) To build a clean and energyefficient economy. The Plan proposes to increase the share of renewable energy in the total energy mix.
viii) To ensure environmental sustainability. The Plan proposes to increase forest and tree cover, and also to take steps to improve the quality of air and water.
ix) To ensure inclusive growth. The Plan proposes to focus on the development of Scheduled Tribes, Scheduled Castes, Other Backward Classes, minority communities and women.
x) To make India a global economic power.
xi) To develop worldclass infrastructure. The Eleventh Five Year Plan is also committed to achieving the Millennium Development Goals.

The main aim of the 11th fiveyear plan is to achieve rapid economic growth. The plan targets an annual growth rate of between and per cent over the five years. The other objectives of the 11th Five Year Plan are to create employment opportunities, reduce poverty and regional imbalances, improve the quality of life and make India a global knowledge economy.

l) Twelfth Five Year Plan (2012-2017)

12th Five Year Plan 2012-17 as per the draft document released by the Planning Commission aims at a growth rate of 8%. The Twelfth Plan's slogan is "Faster, Sustainable, and More Inclusive Growth." It means that the Twelfth Plan aims for faster growth that can be sustained over time, with the benefits of growth reaching the masses.

Twelfth five-year plan – Objectives

Economic growth

i) The real GDP is growing at an annual rate of 8%.
ii) Agriculture is growing at a rate of 4%.
iii) Manufacturing is growing at a 10% rate.
iv) Every state must achieve a faster rate of growth than that of the 11th plan.

Poverty and Employment

i) The poverty rate will be lowered by 10% compared to the end of the 11th plan.
ii) In the non-farm sector, there are 5 million new job openings and skill certifications

Education

i) The average number of years spent in school will rise to seven.
ii) In higher education, there are 20 lakh seats available for each age group.
iii) End the gender and social disparities in school enrollment.

Health

i) Increase the Child Sex Ratio to 950 by lowering the IMR to 25 and the MMR to 1.
ii) Total Fertility Rate (TFR) should be reduced to 2.1.
iii) Reduce child malnutrition in the 0-3 age range to half of the NFHS-3 level.

Infrastructure

i) Infrastructure investment accounts for 9% of GDP (gross irrigated area). 103 million hectares of land (from 90 million hectare)
ii) All communities will have electricity, and AT&C losses will be reduced by 20%.
iii) All-Weather Roads Connect Villages
iv) National and state highways must have a minimum of two lanes.
v) Dedicated Freight Corridors on both the east and west coasts.
vi) Teledensity in rural areas has reached 70%.
vii) 50 percent of the rural population will have access to 40 litres of drinking water per day, and 50 percent of all Gram Panchayats will have Nirmal Gram status.

Environment and Sustainability

i) Every year, increase green cover by 1 million hectares.
ii) Over a five-year period, 30,000 MW of renewable energy will be generated.
iii) By 2020, the GDP emission intensity will be decreased to 20-25 percent of 2005 levels.

Service Delivery

i) 90 percent of Indian households have access to banking services.
ii) Subsidies and welfare payments will be made through the Aadhar-based Direct Cash Transfer Scheme.

m) Thirteen Five Year Plan (2017-2022)

The ten objectives for the 13th five-year plan includes "maintaining economic growth, transforming patterns of economic development, optimizing the industrial structure, promoting innovation-driven development, accelerating agricultural modernization, reforming institutional mechanisms, promoting coordinated development, strengthening ecological construction, safeguarding and improving people's livelihoods and promoting pro-poor development."

14.4 SALIENT FEATURES OF INDIA'S FIVE YEARS PLAN

In India, the Five Year is a deep-rooted system. Although systematic effort of planning was initiated in 1951 but in the meantime, the Eighth Five-year plan has already been completed. It would now be better to study the salient features of Indian's Five-Year plan thoroughly. The following are some of these salient features.

i) Democratic: The first important feature of Indian planning is that it is total democratic. India being the largest democratic country in the world has been maintaining such a planning set up where every basic issues related to its Five-Year plan is determined by a democratic elected Government.

ii) Decentralized planning: Although since the inception of First Plan, the important of decentralized was emphasized so as to achieve active people's participation in the planning process, but the real introduction of decentralized planning was made in India for the first time during the seventh plan. Till the sixth plan Indian had adopted the system of centralized planning with little variation. Decentralized planning is a kind of percolation of planning activities or process from the centre to the sub-state levels, i.e. District, sub-division block and village level. Thus, decentralized planning is a kind of planning at the grass root level or planning from below. Under decentralized planning in India emphasis has been given on the introduction of district planning, sub divisional planning and block-level planning so as to reach finally the village level planning successfully.

iii) Regulatory Mechanism: Another important feature of Indian planning is that it is being directed by a central planning authority, i.e., the Planning Commission of India which plays the role of regulatory mechanism, so as to provide necessary direction and regulation over the planning systems. Moreover, in order to have proper co-ordination between centre and state, a co-ordinating agency, the National Development council (NDC) was set up by government of India of 6th August under the present regulatory mechanism, every planning decision in India originates from the planning commission and gets finally approved by the is National Development council. Moreover, the planning commission of India a also having adequate regulatory mechanism over the successful implementation of planning.

iv) Existence of Central plan and State plan: Another important feature of Indian planning is that is the co-existence of both the central plan and state plans. In every Five-year plan of the country, separate outlay is earmarked both for the central plan and also for the state plan. Central plan is under the exclusive control of the planning commission and the Central Government, where the state plan is under the exclusive control of state planning broad and state Government which also requires usual approval from the planning commission.

v) public sector and private sector plan: Another notable feature of India's Five-Year Plan is that in each plan, separate outlay is earmarked both for public sector and the private sector. India being a mixed economy it is quite natural that a separate investment outlay for public as well as the private sector is being maintained in each plan.

vi) Period Plan: One of the important features of Indian planning is that it has adopted a periodic plan of 5 years period having five separate Annual plan components.

vii) Basic Objectives: The major objective of economic planning in India mostly consists attainment of higher rate of economic growth, reduction of economic inequalities, achieving full employment, attaining economic self-reliance, modernisation of various sectors and redressing the imbalance in the economy. In general, Growth with social justice is the main objective of economic planning in India.

viii) Unchanging priorities: Five year Plans in India are determining its priorities considering the needs of the country. It is being observed that India Five Year Plans have been giving too many priorities on the development Industry. Power and Agriculture with minor modifications. Thus, there is no remarkable changes in the priority pattern of Indian planning, although in recent years increasing priorities are also being laid on poverty eradication programs and on employment generating schemes.

ix) Balanced Regional Development: Another salient feature of India's five years plan is that it constantly attaches much importance on balanced regional development. Development of backward regions is one of the important objectives of Indian planning.

x) Perspective Planning on Basic Issues of Problems: Another import feature of Indian planning is that it has adopted the systems of perspective planning on some basis issues or problems of the country, for a period of 15 to 20 years on the basis of necessary projections.

xi) Shortfalls in Target Realisation: Another notable feature of India's systems Five Year plan is its shortfalls in target realisation. Although targets are fixed for every plan in respect of rate of growth national income, employment population, production, to the fullest extent, excluding certain specific cases. Such shortfalls in target realisation leads to the problems of spill over the projects into next year plans and cost over runs.

14.5 FAILURES OF PLANNING IN INDIA

Although the economic planning has achieved programs on various socio-economic fronts but it has failed in certain respects. The following are some of the areas where planning in Indian has failed.

i) Standard of living: The five-year plan has failed to attain an adequate rise in standard of living of people in general. It failed to provide even basic necessities of life. The poverty elevation programs have also failed to achieve the required level of success in improving the standard of living of people and also to reduce the percentage of population living below poverty line.

ii) Growing Unemployment: Fifty years planning has also failed to generate adequate employment opportunities to the growing number of unemployed. As per recent government estimates, the labour force of the country has increased by about 35 million during 1992 -97 and by another 36 million during 1997-2002.

iii) Inadequate growth in Productive Sectors: As it is evident from the figures given in achievement, both agricultural and industrial sector have failed to attain required growth rates. The rate of growth of agricultural output remained all along poor.

iv) Rise in Price Level: Except first plan all other plans have experienced rise in price level. No government action either monetary or fiscal could control Inflationary trends.

v) Inadequate distribution of Income and Wealth: The gap between rich and poor has widened during planning period of fifty years. The objective of attaining a socialistic pattern has remained a mere slogan. About 58.1 percent of total number of agricultural holdings is of marginal category which is considered as uneconomic.

vi) Poor Level of Implementation: The level of implementation of plan project particularly in respect of rural development agricultural and social welfare sector remained all along poor.

vii) Shortfall in attaining Targets: Five years plans have not only failed to attain the objective of sectoral plans but also failed in attaining targets in overall economic growth out of growing dishonesty and corruption at the administration level.

viii) Lack of strong base of Planning: Most of India's population is depend on agriculture which is fundamental to our economy and plans. And agriculture continues to be a gamble monsoon because of poor development of irrigation and flood control measure.

ix) Paradox of Savings and Investments: In spite a high rate of saving and investment, Indian economy has been facing a paradoxical situation of attaining poor rate of economic growth. Such a situation is result of higher capital output ratio low rate of return on capital employment employed and hung unproductive investment in the traditional sector.

x) Growing Deficit in BOP and Foreign Exchange Crisis: Fifty years of economic planning has also failed to contain the trend of growth deficit in the balance of payment of country leading to a serious foreign exchange crisis as experienced during 1991.

LET US SUM UP

The reader can understand the concept of economic planning and various planning strategies adopted over the years. The reader can understand the objective of planning commission and national development cell. It gives greater understanding of five years plans objectives and its achievement vary widely. It also explains the reasons for the failures of five-year plans implementation.

CHECK YOUR PROGRESS

Choose the Correct Answer:

1. What was the motto of the first five-year plan?

a) Development of finance b) Development of technology

c) Development of secondary sector d) Development of agriculture

2. Which research institute was established during the second 5-year plan?

a) Institute of Economic Growth

b) Tata Institute of Fundamental Research

c) Centre for Economic and Social Studies

d) Council of Scientific and Industrial Research- Indian of Integrative Medicine

3. What was the focus of the first five-year plan?

a) Development of the service sector

b) Development of the primary sector

c) Development of the agricultural sector

d) None of the above

4. Which agricultural initiative was implemented during the fourth plan?

a) E-National Agriculture Market

b) National Mission for Sustainable Agriculture

c) green revolution

d) Pradhan Mantri Fasal Bima Yojana

5. What were the objectives of the ninth five-year plan?

a) Population control b) Social justice

c) Reduction of poverty d) Both (a) and (c)

GLOSSARY

Planning Commission	:	The Planning Commission was assigned the responsibility of assessing all the resources of the country, enhancing scarce resources, drafting plans for the most productive and balanced usage of resources and ascertaining priorities
National Development Cell	:	The National Development Council (NDC) or Rashtriya Vikas Parishad is the apex body for decision creating and deliberations on development matters in India, presided over by the Prime Minister
Regulatory Mechanism	:	Regulatory mechanism means an ordinance, permit, standard, contract language, or any other procedure, that will be enforced by the permittee.
Standard of Living	:	Standard of living is the level of income, comforts and services available, generally applied to a society or location, rather than to an individual Standard of living are relevant because it is considered to contribute to an individual's quality of life.

Foreign Exchange : Foreign exchange refers to exchanging the currency of one country for another at prevailing exchange rates.

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ANSWER TO CHECK YOUR PROGRESS

1.d) 2. b) 3.b) 4.c) 5. d)

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UNIT 1

BUSINESS ENVIRONMENT – AN INTRODUCTION

1.1 INTRODUCTION

Environment, in its literal sense, refers to the surroundings, influences, and conditions in which someone or anything exists. Any organisation's environment can be defined as "the totality of all circumstances, occurrences, and influences that surround and have an impact on it." The fact that the business environment is complicated, dynamic, diverse, and has a broad impact causes it to exhibit a variety of characteristics. Due to all of these factors, breaking down the environment into its internal and external components helps us better understand it. Thus, each business has a unique set of internal elements and encounters a unique set of external forces.

58%	MATCHING BLOCK 1/187	W

The life and success of an individual depend on his innate capability to cope with the environment,

including physiological factors, traits, and skills,

85%	MATCHING BLOCK 2/187	W

the survival and success of a business firm depend on its resources, including physical resources, financial resources,

skills, and adaptability to the environment.

1.2 DEFINITION

Bayard – O. Wheeler defines that

87%	MATCHING BLOCK 3/187	W

the total of all things external to firms and industries that affect

the functioning of the organisation is called Business Environment. Arther Weimer says that the

100%	MATCHING BLOCK 4/187	W

business environment encompasses the 'Climate' or set of conditions, economic, social, political or institutional in which business operations are conducted

and organized.

Marry, M.Richman and MelvgnCoopen, feel that "

યુનિવર્સિટી ગીત

સ્વાધ્યાયઃ પરમં તપઃ
સ્વાધ્યાયઃ પરમં તપઃ
સ્વાધ્યાયઃ પરમં તપઃ

શિક્ષણ, સંસ્કૃતિ, સદ્‌ભાવ, દિવ્યબોધનું ધામ
ડૉ. બાબાસાહેબ આંબેડકર ઓપન યુનિવર્સિટી નામ;
સૌને સૌની પાંખ મળે, ને સૌને સૌનું આભ,
દશે દિશામાં સ્મિત વહે હો દશે દિશે શુભ-લાભ.

અભણ રહી અજ્ઞાનના શાને, અંધકારને પીવો ?
કહે બુદ્ધ આંબેડકર કહે, તું થા તારો દીવો;
શારદીય અજવાળા પહોંચ્યાં ગુર્જર ગામે ગામ
ધ્રુવ તારકની જેમ ઝળહળે એકલવ્યની શાન.

સરસ્વતીના મયૂર તમારે ફળિયે આવી ગહેકે
અંધકારને હડસેલીને ઉજાસના ફૂલ મહેંકે;
બંધન નહીં કો સ્થાન સમયના જવું ન ઘરથી દૂર
ઘર આવી મા હરે શારદા દૈન્ય તિમિરના પૂર.

સંસ્કારોની સુગંધ મહેંકે, મન મંદિરને ધામે
સુખની ટપાલ પહોંચે સૌને પોતાને સરનામે;
સમાજ કેરે દરિયે હાંકી શિક્ષણ કેરું વહાણ,
આવો કરીયે આપણ સૌ
ભવ્ય રાષ્ટ્ર નિર્માણ...
દિવ્ય રાષ્ટ્ર નિર્માણ...
ભવ્ય રાષ્ટ્ર નિર્માણ

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