BUSINESS ORGANISATION

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CHAPTER 8

FORMS OF BUSINESS ORGANISATIONS IN NEW MILLENNIUM

“Modern Business Organisations are helpful in increasing competition and remove domestic monopoly”

In the new millennium a large number of new business organisations are developed .Out of these the main form of business organisations are the following:

1. Global Enterprise or Multinational Companies-MNCs

2. Joint Ventures

3. Malls

4. Contract Manufacturing

5. Licensing

6. Franchises

7. **Wholly Owned Subsidies**

Meaning of Multinational Companies (MNCs):

A multinational company is one which is incorporated in one country (called the home country); but whose operations extend beyond the home country and which carries on business in other countries (called the host countries) in addition to the home country.

It must be emphasized that the headquarters of a multinational company are located in the home country.

Neil H. Jacoby defines a multinational company as follows:

"A multinational corporation owns and manages business in two or more countries."

Point of comment:

A multinational corporation is known by various names such as: global enterprise, international enterprise, world enterprise, transnational corporation etc.

Some popular examples of multinationals are given below:

Foreign Multinational	Indian Affiliate/Subsidiary
Bata Corporation	Bata India
Cadbury	Cadbury India
Coca-Cola Corporation	Coca Cola India
Unilever	Hindustan Lever
Timex	Timex Watches
Colgate Palmolive	Colgate India
Pepsi Corporation	Pepsi India
Philips	Philips India
Sony Corporation	Sony India
Suzuki	Maruti Suzuki
GEC	GEC Alsthom
ABB	ABB India

Features of Multinational Corporations (MNCs):

Following are the salient features of MNCs:

(i) Huge Assets and Turnover:

Because of operations on a global basis, MNCs have huge physical and financial assets. This also results in huge turnover (sales) of MNCs. In fact, in terms of assets and turnover, many MNCs are bigger than national economies of several countries.

(ii) International Operations Through a Network of Branches:

MNCs have production and marketing operations in several countries; operating through a network of branches, subsidiaries and affiliates in host countries.

(iii) Unity of Control:

MNCs are characterized by unity of control. MNCs control business activities of their branches in foreign countries through head office located in the home country. Managements of branches operate within the policy framework of the parent corporation.

(iv) Mighty Economic Power:

MNCs are powerful economic entities. They keep on adding to their economic power through constant mergers and acquisitions of companies, in host countries.

(v) Advanced and Sophisticated Technology:

Generally, a MNC has at its command advanced and sophisticated technology. It employs capital intensive technology in manufacturing and marketing.

(vi) Professional Management:

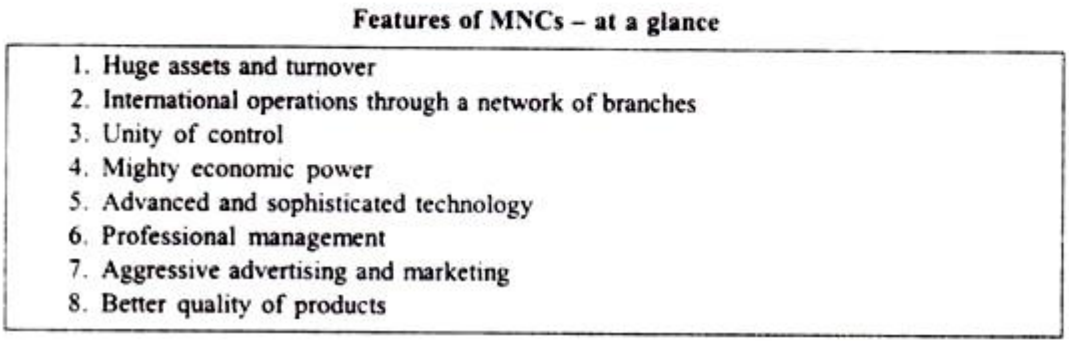
A MNC employs professionally trained managers to handle huge funds, advanced technology and international business operations.

(vii)Aggressive Advertising and Marketing:

MNCs spend huge sums of money on advertising and marketing to secure international business. This is, perhaps, the biggest strategy of success of MNCs. Because of this strategy, they are able to sell whatever products/services, they produce/generate.

(viii) Better Quality of Products:

A MNC has to compete on the world level. It, therefore, has to pay special attention to the quality of its products.



Features of MNCs – at a glance

1. Huge assets and turnover
2. International operations through a network of branches
3. Unity of control
4. Mighty economic power
5. Advanced and sophisticated technology
6. Professional management
7. Aggressive advertising and marketing
8. Better quality of products

Advantages and Limitations of MNCs:

Advantages of MNCs from the Viewpoint of Host Country:

We propose to examine the advantages and limitations of MNCs from the viewpoint of the host country. In fact, advantages of MNCs make for the case in favour of MNCs; while limitations of MNCs become the case against MNCs.

(i) Employment Generation:

MNCs create large scale employment opportunities in host countries. This is a big advantage of MNCs for countries; where there is a lot of unemployment.

(ii) Automatic Inflow of Foreign Capital:

MNCs bring in much needed capital for the rapid development of developing countries. In fact, with the entry of MNCs, inflow of foreign capital is automatic. As a result of the entry of MNCs, India e.g. has attracted foreign investment with several million dollars.

(iii) Proper Use of Idle Resources:

Because of their advanced technical knowledge, MNCs are in a position to properly utilise idle physical and human resources of the host country. This results in an increase in the National Income of the host country.

(iv) Improvement in Balance of Payment Position:
MNCs help the host countries to increase their exports. As such, they help the host country to improve upon its Balance of Payment position.

(vi) Technical Development:
MNCs carry the advantages of technical development 10 host countries. In fact, MNCs are a vehicle for transference of technical development from one country to another. Because of MNCs poor host countries also begin to develop technically.

(vii) Managerial Development:
MNCs employ latest management techniques. People employed by MNCs do a lot of research in management. In a way, they help to professionalize management along latest lines of management theory and practice. This leads to managerial development in host countries.
(viii) End of Local Monopolies:
The entry of MNCs leads to competition in the host countries. Local monopolies of host countries either start improving their products or reduce their prices. Thus MNCs put an end to exploitative practices of local monopolists. As a matter of fact, MNCs compel domestic companies to improve their efficiency and quality.

In India, many Indian companies acquired ISO-9000 quality certificates, due to fear of competition posed by MNCs.

(ix) Improvement in Standard of Living:

By providing super quality products and services, MNCs help to improve the standard of living of people of host countries.

(x) Promotion of international brotherhood and culture:

MNCs integrate economies of various nations with the world economy. Through their international dealings, MNCs promote international brotherhood and culture; and pave way for world peace and prosperity.

Limitations of MNCs from the Viewpoint of Host Country:

(i) Danger for Domestic Industries:

MNCs, because of their vast economic power, pose a danger to domestic industries; which are still in the process of development. Domestic industries cannot face challenges posed by MNCs. Many domestic industries have to wind up, as a result of threat from MNCs. Thus MNCs give a setback to the economic growth of host countries.

(ii) Repatriation of Profits:

(Repatriation of profits means sending profits to their country).

MNCs earn huge profits. Repatriation of profits by MNCs adversely affects the foreign exchange reserves of the host country; which means that a large amount of foreign exchange goes out of the host country.

(iii) No Benefit to Poor People:

MNCs produce only those things, which are used by the rich. Therefore, poor people of host countries do not get, generally, any benefit, out of MNCs.

(iv) Danger to Independence:

Initially MNCs help the Government of the host country, in a number of ways; and then gradually start interfering in the political affairs of the host country. There is, then, an implicit danger to the independence of the host country, in the long-run.

(v) Disregard of the National Interests of the Host Country:
MNCs invest in most profitable sectors; and disregard the national goals and priorities of the host country. They do not care for the development of backward regions; and never care to solve chronic problems of the host country like unemployment and poverty.

(vi) Misuse of Mighty Status:
MNCs are powerful economic entities. They can afford to bear losses for a long while, in the hope of earning huge profits-once they have ended local competition and achieved monopoly. This may be the dirties strategy of MNCs to wipe off local competitors from the host country.

(vii) Careless Exploitation of Natural Resources:
MNCs tend to use the natural resources of the host country carelessly. They cause rapid depletion of some of the non-renewable natural resources of the host country. In this way, MNCs cause a permanent damage to the economic development of the host country.

(viii) Selfish Promotion of Alien Culture:
MNCs tend to promote alien culture in host country to sell their products. They make people forget about their own cultural heritage. In India, e.g. MNCs have created a taste for synthetic food, soft drinks etc. This promotion of foreign culture by MNCs is injurious to the health of people also.

(ix) Exploitation of People, in a Systematic Manner:
MNCs join hands with big business houses of host country and emerge as powerful monopolies. This leads to concentration of economic power only

in a few hands. Gradually these monopolies make it their birth right to exploit poor people and enrich themselves at the cost of the poor working class.

Advantages and Limitations of MNCs – at a glance
(from the viewpoint of host country)

Advantages

1. Employment generation
2. Automatic inflow of foreign capital
3. Proper use of idle resources
4. Improvement in Balance of Payment position
5. Technical development
6. Managerial development
7. End of local monopolies
8. Improvement in standard of living
9. Promotion of international brotherhood and culture

Limitations

1. Danger for domestic industries
2. Repatriation of profits
3. No benefit to poor people
4. Danger to independence
5. Disregard of the national interests of the host country
6. Misuse of mighty status
7. Careless exploitation of natural resources
8. Selfish promotion of alien culture
9. Exploitation of people, in a systematic manner

Advantages from the Viewpoint of the Home Country:

Some of the advantages of the MNCs from the viewpoint of the home country are:

(i) MNCs usually get raw-materials and labour supplies from host countries at lower prices; specially when host countries are backward or developing economies.

(ii) MNCs can widen their market for goods by selling in host countries; and increase their profits. They usually have good earnings by way of dividends earned from operations in host countries.

(iii) Through operating in many countries and providing quality services, MNCs add to their international goodwill on which they can capitalize, in the long-run.

Limitations from the Viewpoint of the Home Country:

Some of the limitations of MNCs from the viewpoint of home country may be:

(i) There may be loss of employment in the home country, due to spreading manufacturing and marketing operations in other countries.

(ii) MNCs face severe problems of managing cultural diversity. This might distract managements' attention from main business issues, causing loss to the home country.

(iii) MNCs may face severe competition from bigger MNCs in international markets. Their attention and finances might be more devoted to wasteful counter and competitive advertising; resulting in higher marketing costs and lesser profits for the home country.

Joint Venture

What is a Joint Venture?

When two or more persons join together to carry out a specific business venture and share the profits on an agreed basis it is called a 'joint venture'. Each one of them who join as a party to the joint venture is called 'Co-Venturer'. No firm name is normally used for the joint venture business because its duration is limited to a short period. During this period, the co-ventures are free to carry on their own business as usual, unless agreed otherwise. The business relationship amongst the co-venturer comes to an end as soon as the venture is completed. Thus, a joint venture is some kind of a temporary partnership between tow or more persons who have agreed to jointly carry out specific venture. The joint ventures are quite common in construction business, consignment, sale and purchase of property, underwriting of shares and debentures, etc. For example, A and B agreed to construct a college building for which they pooled their resources and skill. A proveded Rs. 6 lakh and B Rs. 4 lakh as capital. They completed the building and shared the profits in the ration of their contributions to capital. In this example, joining hands by A and B to construct a building is a joint venture. A and B are co-ventures. They will share the profits in the ration of 6 and 6 (same as the ratio of their capitals).

From the above the essential features of a joint venture can be listed as follows:

1. It is formed by two or more persons.
2. The purpose is to execute a particular venture or project
3. No specific firm name is used for the joint venture business.
4. It is of a temporary nature. Hence, the agreement regarding the venture automatically stand terminated as soon as the venture is completed.
5. The co-ventures share profit and loss in the agreed ratio. However, in the absence any other agreement between the co-ventures, the profits and loss are to be shared equally.
6. During the tenure of joint venture, the co-ventures are free to continue with their own business unless agreed otherwise.

The main advantages of a joint venture are:

1. **Sufficient Resources**: Since two or more persons pool their resources, there is sufficient capital available.
2. **Ability and Experience**: In joint venture the different ventures may be having different skills and experience. The benefit of their common wisdom will be available to the venture.
3. **Spreading of Risk:** The co-ventures agree to share the profits and losses in a particular ratio. The implies that the risk is also borne by them in that ratio.

Advantages and disadvantages of Joint Venture form of Business

When two or more business join together to carry out a business by providing expertise and resources, it is called a joint venture. The risk and rewards are shared as per the proportion of the investment by the parties concerned.

The main advantages of a joint venture are:

1. More resources: since two or more firms join together to form a joint venture, there is availability of increased capital and other resources.
2. Access to new markets: by engaging with a foreign collaborator, the products and services can be marketed in a foreign country.
3. New and improved Technology: One partner may have the new and improved technology but do not have the resources. Other partner may have resources like capital but do not have the technology. In such causes joint venture can fetch new and improved technology as well as great resources. By engaging a foreign partner, improved foreign technology can be availed from it's foreign collaborator.
4. Use of existing marketing arrangements or existing distribution network of one of the party is possible.
5. Access to improved resources like experienced technicians, experienced staff, greater capacity, financial resources etc. are possible through joint venture business.
6. Sharing of costs and risks with partners.
7. Diversification of business by producing new products or new area of business.
8. Increased productivity and grater profits.
9. Exchange of Products: Joint venture companies can offer their existing product to sell through the partners network and share the profit. Both JV partners can do the same. By exchanging products and services of the partner, they can diversify the product basket and sell it to their existing customers and increase the profit.

There many disadvantage in the joint venture form of business. They are:

1. It take time and efforts to form the right relationship.
2. The objectives of each partner may differ. The objectives needs to be clearly defined and communicated to everyone involved.
3. Imbalance in the share of capital, expertise, investment etc., may cause friction in between the partners.
4. Difference in the culture and style of business lead to poor co-operation.
5. Lack of assuming responsibility by the partners may lead the collapse of business.
6. Lack of communication between the partners may affect the business.

MALLS/ SUPERMARKETS

Meaning:

The super market is a large-scale retail institution specialising in necessaries and convenience goods. They have huge premises and generally deal in food and non-food articles. In the words of M.M. ZIMMERMAN, "A super market is a departmentalised retail establishment having four basic departments viz. self-service grocery, meat produce, dairy products plus other household departments, doing a maximum business. It may be entirely owner-operated or have some of the departments leased out on a concession basis."

Super markets came into existence in the USA during the Great Depression of the thirties. However, the original super markets were established by independent merchants who dealt mainly in food produce. The chief characteristic feature of a super market is the absence of salesmen.

The customers are to do the shopping themselves from the racks which are properly labelled and at the end of the market there is the cashier who takes the cash after weighing and checking the commodities. Usually the customers make their purchases and carry them in trolleys. Thus, the super markets are also known as self-service stores since the customers are to do all the purchasing by themselves without the aid of salesmen or selling assistants.

Characteristics:

(i) They are located in the main shopping centres of an area with adequate parking facilities.

(ii) They function on cash-and-carry lines and offer no credit.

(iii) There are no selling counters or selling assistants to help the customers.

(iv) They stock a very wide range of food and non-food products, particularly meat products, dairy products, tinned food, bakery items, vegetables and other household products.

(v) They are large retail organisations and are a useful channel of distribution.

(vi) They have low sales overheads since no salesmen are employed.

(vii) The products stored in a super market are properly packed and placed on separate racks in order to facilitate purchasing by the buyer.

(viii) It is one of the leading methods of retailing in the USA.

(ix) They use mass displays of goods, have low prices and operate on self-service basis.

Contract Manufacturing Defined

Contract manufacturing is the outsourcing of part of the manufacturing process of a product to a third-party. More specifically, contract manufacturing is an outsourcing of certain production activities that were previously performed by the manufacturer to a third-party. A company may outsource the manufacture of certain components for the product or outsource the assembly of the product. Nowadays, outsourcing companies have become specialists in a multitude of services for manufacturers including design, production, assembly, and distribution.

Advantages to Contract Manufacturing

Why would a company opt for contract manufacturing? Manufacturers can save significant money on labor, materials and other expenses related to production. Third-party contract manufacturers are usually in developing countries with an abundant supply of cheap labor and minimal regulations. So long as the company maintains appropriate oversight, contract manufacturing can permit a company to lower its production costs, maintain the quality of its production, and increase its profit margins.

Disadvantages to Contract Manufacturing

Contract manufacturing does have disadvantages for the company, the foreign employees, and the company's domestic economy. Since 2001, the United States has outsourced millions of manufacturing jobs, which has resulted in a great deal of job displacement for many Americans, who may never find a replacement job with similar wages and benefits.

Foreign laborers used in outsourcing work for low wages and have few, if any, regulatory protections such as minimum wages and safe working conditions. In fact, international human-rights organizations have raised concerns about the treatment of these foreign workers. Finally, the company outsourcing the work does give up some control of the manufacture of its products, and it is often hard to make extensive changes.

LICENSING

Definition: *A business arrangement in which one company gives another company permission to manufacture its product for a specified payment .*

There are few faster or more profitable ways to grow your business than by licensing patents, trademarks, copyrights, designs, and other intellectual property to others. Licensing lets you instantly tap the existing production, distribution and marketing systems that other companies may have spent decades building. In return, you get a percentage of the revenue from products or services sold under your license. Licensing fees typically amount to a small percentage of the sales price but can add up quickly.

For example, about 90 percent of the $160 million a year in sales at Calvin Klein Inc. comes from licensing the designer's name to makers of underwear, jeans and perfume. The only merchandise the New York-based company makes itself, in fact, are its women's apparel lines. Many large corporations, such as the Walt Disney Co., generate less significant proportions of their revenue from licenses. IBM, after energizing its efforts to license its thousands of technology patents a few years ago, now attributes $1 billion a year of its corporate sales to licensing. The downside of licensing is that you settle for a smaller piece of the pie. Calvin Klein-branded products, for example, generate $5 billion in sales a year, the vast majority of which goes to licensees and retailers. At the same time, licensing revenue tends to be high-margin, with almost all the fees from licensing flowing straight to the bottom line.

Licensing offers three major advantages. First, it may mean you have something unique your competitors don't. Second, it may mean getting a little better margin because it's unique. And third, it may mean that 10 percent of the retailers you call on that you've never been able to sell to will finally take a look because you have something different. And when that happens, you can sell the rest of your line.

Who can obtain a licensing agreement? The list runs the gamut from a multinational conglomerate to a one-person operation. But in general, a licensor looks for the strongest company in terms of finances, manufacturing and marketing. The good news for small business is that strength is not necessarily measured in dollars or longevity.

Before you tackle the licensing industry, you need to have your own house in order. Make sure you have or can get financing, ensure that your manufacturing capacity is up to snuff, and establish distribution channels. It's also a good idea to try to establish a sales history for your products. Once this is accomplished, then decide what licensing products you want to target.

Once you know who you want to target, the next step is talking to the company or its representative and convincing them of your product's potential. Large organizations will most likely have people who oversee licensing and marketing or will have turned those functions over to a licensing agent. You can determine the proper person to speak with by contacting the company directly to ask about licensing opportunities.

Deciding which licensor to approach means evaluating your strengths. The bigger and more popular the property is, the more it's going to cost to secure the licensing rights. Beginners should probably start out small to learn the ropes.

Once you begin approaching companies, many will ask you to fill out a licensing application, and all will ask for a business plan detailing how you propose to market the product, who your target audience is and what you estimate sales could be. Most licensors will also request product samples.

What happens after the licensor says yes? Most, if not all, companies will ask for a minimum guarantee of sales covering the life of the contract paid in advance or in instalments, and will charge royalties as well. Royalties are a percentage of sales paid by the licensee to the owner of a property or a designated agent, usually based on the net wholesale selling price. Some licensors are willing to negotiate these fees; others are not.

Meaning Franchise:

Franchise may be defined as follows:

Franchise is a continuing relationship between the parent company (called the franchiser) and an individual business unit (called the franchisee); under which the parent company provides a licensed privilege to the business unit to use its trade mark, in return for a royalty payment made to the parent company.

In India, franchising has been popular in fast food chains, beauty parlors, fitness centres, computer education, clothing, shoes, hotels, pathology, health care etc. NIIT, APTECH, LCC, McDonald, Nirulas, Wimpy, Haldiram etc. are some popular examples of franchise.

Salient Features of Franchise:

Some salient features of franchise are as follows:

(i) Franchise relationship is based on an agreement; which lays down terms and conditions of this relationship.

(ii) The term of franchise may be for 5 years or more; and the franchise agreement may be renewed with the mutual consent of both the parties.

(iii) The franchisee gives an undertaking not to carry on other competing business during the term of the franchise; and the franchiser gives an undertaking not to terminate the franchise agreement before its expiry except under situations which may justify the termination of the franchise agreement.

(iv) The franchisee agrees to pay specified royalty to the franchiser, as per terms of the franchise agreement.

(v) Franchise means selling the same product and maintaining a similar type of shop decor (i.e. style of interior decoration); for which franchiser provides assistance to franchisee in organising, merchandising and management. The franchiser virtually sets up the business for the franchisee.

(vi) Franchisee is supposed to follow parent company's policies regarding mode of business operations, as per clauses in the franchise agreement.

(vii) Franchiser may give training to personnel working in the franchisee's organization.

Merits of Franchise:

From the Viewpoint of the Franchiser:

(i) Expansion of Business:

The franchiser is able to expand his business, and gain wider acceptance of his brand name or trademark, because of franchise agreement. The franchiser can enter into foreign markets also and enhance his goodwill and business.

(ii) Regular Income:

The franchiser receives a regular income by way of royalty from the franchisee at no extra cost; as cost of new premises and extra staff is borne by the franchisee.

(iii) Economical Advertising:

Advertising done by the franchiser benefits the franchisee also. Thus, under franchise, advertising proves very economical, in the long-run.

(iv) Advantage of Market Feedback:

The franchiser gets market feedback about product popularity, needs, preference of local customers from the franchisees.

From the Viewpoint of the Franchisee:

(i) Little Investment Needed:

The franchisee can start business with lesser investment than would be required had he to start an independent business of his own.

(ii) Advantage of Goodwill to Franchisee:

Franchisee gets the immense advantage of the goodwill created by the franchiser. Higher success rate is found in cases of franchise; as the franchisee averts the risk of starting a new business of his own and gets an income higher than possible from his own independent business.

(iii) Management Assistance etc.:

The Franchiser provides may types of assistance to franchisee like:

(a) Store lay-out guidance

(b)Training to personnel

(c) Marketing support

(d)Financial assistance etc.

(iv) Advantage of research and development:

The parent company makes huge investment in research, innovations etc.; the advantage of which goes to franchisee in the normal course of functioning of business.

Limitations of Franchise:

From the Viewpoint of the Franchiser:

(i) Danger of image tarnishing:

If the franchisee does not maintain standards of quality and service; there is a danger that the goodwill and image of the reputed franchiser is tarnished.

(ii) Problems and costs for the franchiser:
In franchise, the franchiser faces many problems and costs like:
(a) Vocal and demanding attitude of franchisee

(b) Problems and costs of communicating with franchisees located at distant places

(c) Costs of training, financing and advertising, done for the franchisees.

From the Viewpoint of the Franchisee:

(i) Lack of freedom:
The franchisee does not have the freedom to run his business in an independent manner. He has to abide by management and operational policies of the franchiser – whether suitable to him or not.

(ii) Limited range of products:
The franchisee cannot introduce new products in his business; except those permitted by franchiser. This may mean loss of business to franchisee amidst local conditions surrounding his business.

(iii) Fixed royalty payment:
The franchisee has to make payment of royalty to the franchiser on a regular basis. This considerably reduces the income of the franchisee.

CHAPTER 9

GOVT AND BUSINESS INTERFACE

Interface between government and business

The government of any country can influence. Its international business significantly. Government intervention for the purpose of protecting domestic industries usually results in less movement of goods and services across borders.

A government major role in global business may stem from its being a world trade, negotiator. Manu people believe that their government should limit competition from foreign goods in the interest of protecting local business and the jobs they after. IN the US, people question why the Japanese are allowed to set up auto plants in the US, while the country's farmers cannot sell rice in Japan even though imported rice would cont less than Japanese produced rice. In our country too, there is strong opposition to the import of anything. Especially in respect to the inflow of technology, ----countries interface with the multinational.

Government Involvement in Business
- Historical Perspective

Slate intervention in business seems to be as old as business itself. Even in the days of laissez faire, which apparently shunned state intervention, the government's role in the economy was almost inescapable. "There is a grave doubt", wrote Eugene V. Schneider, "as to whether this doctrine (laissez faire) gave an accurate picture of the relationship between the industry and the government even in the early days of industrialism. Franchises, grants to land, outright subsidies- all these special privileges and many others besides attested to the existence of a strong relationship between industry and the government. The factory laws of the 19th century marked the first normal and active state involvement. The establishment of trade unions compelled the stage to intervene.

In 1944, when the war was still in progress, the Department of planning and development was setup.

A new Industrial policy was announced by the government and the then viceroy, lord wavell, declared in 945, "Government has decided to take positive steps to encourage and promote industrialisation of the country to the fallent extent possible".

Even after the war, distortions in the economy continued, some of them in new dimensions and many of the war-time regulation could not be removed or even relaxed. The concept of competitiveness does not completely disappear but it becomes more complex. Country specific variable will still have some impact income level's, natural resources, infrastructure, educations, training, etc, but these are only one part of a complex picture of global interrelationship.

The government's role in removing the poverty of millions of people and impraing their standards of living was realised by all concerned.

THE ROLES OF GOVERNMENT
The role of the government should be to facilitate the process of people's involvement in development activities by creating the rights types of institutional infrastructure, particularly in rural areas. Without organised government, individual citizens and business would operate like beasts in jungle.

The Government as Customer:
As a customer, the government often causes business firms to set new purchasing procedures. The Government wants to encourage. Competition because it has established its own set of standards for projects and it makes purchases an the basis of performance, not in response to advertising.

The Government as Competitor:
Besides meeting government regulations concerning their activates, same business must complete with

government owned operations. Deposit insurance home mortgaging insurance, bank loan guarantees, and medical insurance were, undertaken only because private companies would not or could not provide them. Today they have made the government a competitor against many private business firms.

The Government as a tan collector:
Most beginning workers are shocked when they look at their first paycheck and see how much of their earnings have been withheld by the government. For business students that experience is an introduction to how federal income tax are collected. This is an important and complex aspect of the relationship between government and business.

Business Responsibilities to Government:
Business firms have a number of responsibilities to the government. Business firms must obey the laws of central, state and local governments. Business should look to the government for support, sustenance, encouragement and guidance. Business leaders must follow government as a big brother who is wiser, more matured, more mellowed and less impetuous element in business.

A few important responsibilities of business towards the government are explained below:

Tax Payment:
Taxes paid by business enterprises constitute a major source of revenue to the government firms themselves pay regular taxes and their sales, input and income and also deduct, at source income taxes form salaries and wages at employees and remit the collection to the government.

Voluntary programmes:
In co-operation with the government, business firms train unemployed and support non-discriminative recruitment of personnel and workmen. Business extends these facilities under the name of social responsibilities.

Providing Information:
Political leaders, either because of inexperience or over enthusiasm, make certain decisions which may not be in the overall interest of business. Business leader's pocess the necessary knowledge and experience to place their points of view before the political leaders.

Government Contracts:
May business firms bid for government contacts and, if successful, carry out the resulting projects with the required specifications and standards. Housing projects, oil pipelines, turnkey projects and others are executed by private business house for the government.

Government Service:
Business offers services of its leaders to the government. It is not unusual for business executives to lead or accompany delegations to foreign countries for exploring trade and industry prospects, similarly, business leaders serve on various advisory boards constituted by the government.

Political Activity:
Political participation is a much debated subject today. There are arguments for and against participation of business in political activities. Justifying business politics nexus G.D. Birla once said As the Bhagavad Gita says, every man must do his duty which means if you are a wealthy man, you must do your duty by your wealth and his dharma is to provide for general welfare.

Government responsibilities to Business

Government responsibilities to business are much greater than the obligation of business to the government, Government has the power, will and resources to decide, shape, guide and control business activities. The government responsibilities towards business are as follows.

Establishment and enforcement of laws:
Government Establishment and enforces laws and regulations under which the business functions. Laws and regulations covering all aspects of the business enacted by the government. Government is responsible for providing the rules of the game, which make the business systems function smoothly. It is

the responsibilities of government to enforce the laws and to provide a system of courts for adjudicating differences between business firms, individuals and government agencies.

Maintenance of order Government has the responsibility of maintaining order and protecting persons and property. It would be impossible to carry as business in the absence of a peaceful atmosphere.
Money and credit: The govt. provides a system of money and credit by means of which transactions can be affected. It is also responsibility of the govt. to regulate money and credit and protect the integrity of the rupee, that is, to grand against rapid fall in its value.

Orderly growth: Orderly growth implies balanced regional development, distributive justice, full employment and protecting the economy against ‘booms and bunts’ The Government has the resources and capabilities to ensure orderly growth.

Infrastructure:
Business needs for its effective functions such Infrastructural facilities as transportation, power, finance, trained persons and civic amenities. It is the responsibilities of the government to provide these facilities.

Information:
Government agencies publish and provide a large volume of information which is used extensively by business firms. Included are information services of the departments of commerce and industry, agriculture labours, health, education, banking, atomic energy and host of others. Many state and local governments also provide information highly useful for business leaders in conducting their activities.

Government Competition:
Government often competes with private business firms for the purpose of regulating competition, improving quantity or to supplement private activities with govt. programs. In same cases the govt. regulates the prices which may be charged for buyers.

Inspections and licenses: Government agencies conduct inspection activities foods and drugs, for example assuring quality products to consumers. Government issues licenses to completed business establishment to carry as different activities.

Tariffs and quotas: Tariffs and quotas used by the government to protect business from foreign completions. Incentives and subsidies are granted by the government to encourage the development of home industries.

Transfer of Technology:
Government owned research establishments transfer their discoveries to the private industry in order to put them to commercial production more striking success in the technology transfers is in the areas of instruments for processing remote sensing data.

STOCK EXCHANGES IN INDIA

Mark Twain once divided the world into two kinds of people: those who have seen the famous Indian monument, the Taj Mahal, and those who haven't. The same could be said about investors. There are two kinds of investors: those who know about the investment opportunities in India and those who don't. India may look like a small dot to someone in the U.S., but upon closer inspection, you will find the same things you would expect from any promising market. Here we'll provide an overview of the Indian stock market and how interested investors can gain exposure.

The BSE and NSE
Most of the trading in the Indian stock market takes place on its two stock exchanges: the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The BSE has been in existence since 1875. The NSE, on the other hand, was founded in 1992 and started trading in 1994. However, both exchanges follow the same trading mechanism, trading hours, settlement process, etc. At the last count, the BSE had about 4,700 listed firms, whereas the rival NSE had about 1,200. Out of all the listed firms on the BSE, only about 500 firms constitute more than 90% of its market capitalization; the rest of the crowd consists of highly illiquid shares.

Almost all the significant firms of India are listed on both the exchanges. NSE enjoys a dominant share in spot trading, with about 70% of the market share, as of 2009, and almost a complete monopoly in derivatives trading, with about a 98% share in this market, also as of 2009. Both exchanges compete for the order flow that leads to reduced costs, market efficiency and innovation. The presence of arbitrageurs keeps the prices on the two stock exchanges within a very tight range.

Trading Mechanism
Trading at both the exchanges takes place through an open electronic limit order book, in which order matching is done by the trading computer. There are no market makers or specialists and the entire process is order-driven, which means that market orders placed by investors are automatically matched with the best limit orders. As a result, buyers and sellers remain anonymous. The advantage of an order driven market is that it brings more transparency, by displaying all buy and sell orders in the trading system. However, in the absence of market makers, there is no guarantee that orders will be executed.

All orders in the trading system need to be placed through brokers, many of which provide online trading facility to retail customers. Institutional investors can also take advantage of the direct market access (DMA) option, in which they use trading terminals provided by brokers for placing orders directly into the stock market trading system.

Settlement Cycle and Trading Hours
Equity spot markets follow a T+2 rolling settlement. This means that any trade taking place on Monday, gets settled by Wednesday. All trading on stock exchanges takes place between 9:55 am and 3:30 pm, Indian Standard Time (+ 5.5 hours GMT), Monday through Friday. Delivery of shares must be made in dematerialized form, and each exchange has its own clearing house, which assumes all settlement risk, by serving as a central counterparty.

Market Indexes
The two prominent Indian market indexes are Sensex and Nifty. Sensex is the oldest market index for equities; it includes shares of 30 firms listed on the BSE, which represent about 45% of the index's free-float market capitalization. It was created in 1986 and provides time series data from April 1979, onward.

Another index is the S&P CNX Nifty; it includes 50 shares listed on the NSE, which represent about 62% of its free-float market capitalization. It was created in 1996 and provides time series data from July 1990, onward.

Market Regulation
The overall responsibility of development, regulation and supervision of the stock market

rests with the Securities & Exchange Board of India (SEBI), which was formed in 1992 as an independent authority. Since then, SEBI has consistently tried to lay down market rules in line with the best market practices. It enjoys vast powers of imposing penalties on market participants, in case of a breach.

Who Can Invest In India?

India started permitting outside investments only in the 1990s. Foreign investments are classified into two categories: foreign direct investment (FDI) and foreign portfolio investment (FPI). All investments in which an investor takes part in the day-to-day management and operations of the company, are treated as FDI, whereas investments in shares without any control over management and operations, are treated as FPI.

For making portfolio investment in India, one should be registered either as a foreign institutional investor (FII) or as one of the sub-accounts of one of the registered FIIs. Both registrations are granted by the market regulator, SEBI. Foreign institutional investors mainly consist of mutual funds, pension funds, endowments, sovereign wealth funds, insurance companies, banks, asset management companies etc. At present, India does not allow foreign individuals to invest directly into its stock market. However, high-net-worth individuals (those with a net worth of at least $US50 million) can be registered as sub-accounts of an FII.

Foreign institutional investors and their sub accounts can invest directly into any of the stocks listed on any of the stock exchanges. Most portfolio investments consist of investment in securities in the primary and secondary markets, including shares, debentures and warrants of companies listed or to be listed on a recognized stock exchange in India. FIIs can also invest in unlisted securities outside stock exchanges, subject to approval of the price by the Reserve Bank of India. Finally, they can invest in units of mutual funds and derivatives traded on any stock exchange.

An FII registered as a debt-only FII can invest 100% of its investment into debt instruments. Other FIIs must invest a minimum of 70% of their investments in equity. The balance of 30% can be invested in debt. FIIs must use special non-resident rupee bank accounts, in order to move money in and out of India. The balances held in such an account can be fully repatriated.

Restrictions/Investment Ceilings

The government of India prescribes the FDI limit and different ceilings have been prescribed for different sectors. Over a period of time, the government has been progressively increasing the ceilings. FDI ceilings mostly fall in the range of 26-100%.

By default, the maximum limit for portfolio investment in a particular listed firm, is decided by the FDI limit prescribed for the sector to which the firm belongs. However, there are two additional restrictions on portfolio investment. First, the aggregate limit of investment by all FIIs, inclusive of their sub-accounts in any particular firm, has been fixed at 24% of the paid-up capital. However, the same can be raised up to the sector cap, with the approval of the company's boards and shareholders.

Secondly, investment by any single FII in any particular firm should not exceed 10% of the paid-up capital of the company. Regulations permit a separate 10% ceiling on investment for each of the sub-accounts of an FII, in any particular firm. However, in case of foreign corporations or individuals investing as a sub-account, the same ceiling is only 5%.

Regulations also impose limits for investment in equity-based derivatives trading on stock exchanges.

FEDERATION OF INDIAN CHAMBERS OF COMMERCE AND INDUSTRIES IN INDIA (FICCI)

FICCI means Federation of Indian Chambers of Commerce and Industry. In 1927 on the articulation of Mahathma Gandhi to have an organization that collectively represents the Indian business entities Ghanshyam Das Birla along with Purshottamdas Thakurdas has established FICCI. Having its history interwoven with India's struggle for independence FICCI has emerged as the India's oldest and apex association of business organization. FICCI has a huge membership about 3, 00,000 directly and indirectly including Public and Private sector companies, MNCs, SMEs and Industry Associations. FICCI's headquarters are located in National capital New Delhi.
Being a non-government, non-profit organization, FICCI stands as the voice of India's business organizations and industry.

Functions of FICCI:

- Provides guidance & education
- Key role economic policy making
- works with foreign business councils
- conducts business meets, conferences
- Assist its members
- Valuable information on exports

1. Role in policy making:
FICCI plays a pivotal role in formulation of economic and finance policies. By engaging with the policy makers, government and civil society FICCI influences the policies by way of articulating the views and suggestions of industry.

2 Jointly works with similar associations of foreign countries:
Works with joint business councils and private industrial alliances situated across the globe in the areas of trade enhancements, industry partnerships to voice the opinion of the Indian industry on global forum.

3 Provides guidance and education:
Provides guidance and education to its member organizations by way of publishing informative journals useful to the business community. And acts a conflict resolver among them by way of mutual discussion on the problems.

4 Conducts various programs and events:
Conducts workshops, seminars, business meets and conferences to discuss, debate various upcoming and existed policies of the government.

5 Assistance to government:
Assist the government in the areas of the trade negotiations with foreign countries and sends their experienced personnel to the abroad to study the economy and business environment.

6 Assists its members:
Assist its members in the areas of policy improvement, suggestions to the management.

7 Provides information on exports:

Provides credible and valuable information on potentials and new developments in foreign trade by studying the trade environment and imports regulations of many foreign countries.

8 Invites and arrange the talks with foreign business delegates:
Plays crucial role in inviting foreign business delegations of public and private levels which are very vital in improving the foreign trade and foreign investment.

Membership:
FICCI’s membership is open to all the business organizations irrespective of public or private, small or big, service or manufacturing. Currently FICCI has more than three lakh members joining from various industries directly and indirectly.

Benefits to the member organizations:

1. Member organizations can participate in Exhibitions, Trade Fairs, Conferences, Seminars and workshops conducted by FICCI.
2. They can access FICCI’s information library such as reports on various policy researches, knowledge papers and periodical journals.
3. Members can participate in formulating economic & industrial policies through close linkage with the Government.
4. As a member of the large business networking community one can work with other players in the industry to achieve the maximum results.

Services offered by FICCI:

FICCI offers following services:

1. Arbitration
2. Business to business (B2B) solutions
3. Technology commercialization
4. Management and conservation of resources
5. Initiate actions to promote entrepreneurship and professional excellence in women trough FICCI Ladies organization
6. Water audit service
7. Consumer care