MMM II

Study Notes
on
Business Environment

MIM / MFM / MMM / MHRDM
SEMESTER - III

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5	Corporate Social responsibility
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9	Energy Management
10	Entrepreneurship &Family Business houses
11	Managing Business Resources

General References:

- Business Environment by Vivek Mittal
- Business Environment – Managing in a Strategic Context by John Kew & John Stredwick
- International Business Environment- Francis Cherunilam
- Business Environment – Misra & Puri
- Essentials of Business Environment – K. Aswathappa
- Business Environment - Francis Cherunilam

Meaning and Types of Business Environment

Business environment in the present era of economic liberalizati privatization and globalization is becoming increasingly complex, unsta and unpredictable. The environment is the resultant of a number interacting and constantly changing social and economic forces and th remains in a state of flux. Variations in the overall and sectoral rates growth and frequent shifts in macro economic policies necessitated a triggered by social, economic or even political issues and proble demanding urgent attention keep business environment in a state continuous change. The changing-environment creates challenges, opens new opportunities and affects the strengths and weaknesses of vari business segments. An agile organization not only comprehends and ma strategic adjustments in business planning and operation but is also able project the forthcoming changes from the current scenario and t appropriate defensive measures. An organization insensitive to change business organization is more likely to confront the vagaries of business a may be compelled to make more expensive and painful adjustments a belated stage or simply be driven out of business in a competit environment.

Business Environment consists of all those factors that have a direct indirect bearing on the activities of business.

There are broadly two types of environments:

- **Internal environment** - Factors internal to the firm. The inte factors are generally regarded as *controllable factors* because company has control over these factors.

- **External environment** – Factors external to the firm which relevance to it. These factors are, by and large, beyond the control company. The external or environmental factors such as the econo factors, socio-cultural factors, government and legal fact demographic factors, socio-cultural factors, geophysical factors are, therefore, generally regarded as uncontrollable factors.

Some of the external factors have a direct and intimate impact on the (like the suppliers and distributors of the firm). These factors are classi

as **micro environment,** also known as task environment and operating environment. There are other external factors which affect an industry very generally (such as industrial policy, demographic factors etc.). They constitute what is called **macro environment**, general environment, and remote environment.

- **Internal Environment**

The important internal factors which have a bearing on the strategy and other business decisions are outlined below.

1. **Value System**
   The value system of the founders and those at the helm of affairs has important bearing on the choice of business, the mission and objectives of the organization, business policies and practices. It is a widely acknowledged fact that the extent to which the value system is shared by all in the organization is an important factor contributing to success. The value system of JRD Tata and the acceptance of it by others who matter were responsible for the voluntary incorporation in the Articles of Association of TISCO its social and moral responsibilities to consumers, employees, shareholders, society and the people.

2. **Vision, Mission and Objectives**
   The business domain of the company, priorities, direction of development, business philosophy, business policy etc., is guided by the vision, mission and objectives of the company. Ranbaxy's thrust into the foreign markets and development has been driven by its vision "to become a research based international pharmaceutical company".

3. **Management Structure and Nature**
   The organizational structure, the composition of the Board of Directors, extent of professionalisation of management etc., are important factors influencing business decisions.

4. **Human Resources**
   The characteristics of the human resources like skill, quality, morale, commitment, attitude etc, could contribute to the strength and weakness of an organization. Some organizations find it difficult to carry out restructuring or modernization because of resistance by

employees whereas they are smoothly done in some others. Th
involvement, initiative etc., of people at different levels may var
from organization to organization. The organizational culture an
overall environment have bearing on them. John Towers, M.D., Rove
Group, observes that a Japanese company of 30,000 employees
30,000 process improvers. In a Western company, it is 2,000 proce
improvers and 28,000 workers. And in an Indian company?

5. **Company Image and Brand Equity**
   The image of the company matters while raising finance, formin
   joint ventures or other alliances, soliciting marketing intermediarie
   entering purchase or sale contracts, launching new products etc. Bra
   equity is also relevant in several of these cases.

6. **Physical Assets and Facilities** like the production capacit
   technology and efficiency of the productive apparatus, distributi
   logistics etc., are among the factors which influence t
   competitiveness of a firm. For example, recognizing fully well t
   importance of quality in the pharmaceutical industry, particularly for
   global player, in the case of Core Healthcare not only there is
   compromise on quality but also the company made the quality norm
   stricter than international or other relevant standards and the quali
   mantra has been well imbibed through out the organization.

7. **R&D and Technological Capabilities**, among other thing
   determine a company's ability to innovate and compete.

8. **Marketing Resources** like the organization for marketing, quality
   the marketing men, brand equity and distribution network have dire
   bearing on marketing efficiency. They are important also for bra
   extension, new product introduction etc.

9. **Financial Factors** like financial policies, financial position a
   capital structure are also important internal environment affecti
   business performances, strategies and decisions.

- **External Environment**

The external business environment consists of micro environment and macro environment.

Micro Environment

"The micro environment consists of the actors in the company's immediate environment that affects the performance of the company". These include the following:

1. **Suppliers**

   Suppliers provide capital equipment, intermediate inputs and raw materials on a regular basis. Supplier relations are important for a firm. Good supplier relations ensure reasonable price, appropriate quality, fairness in dealing, rational delivery terms and timely schedules. Not only that, a firm is able to obtain the supplies on soft credit terms, which eases pressure on the liquidity of the firm. In cases where supplies are regular and in time, the firm need only smaller inventories of raw materials, which reduces the cost of holding inventory stocks. These advantages add to the firm's competitiveness in the market.

2. **Customers**

   A business organization basically exists for the customer and all its activities have to be customer-focused. Firms cherish to have a large and growing base of loyal customers. This is possible only through proper customer relations management. Firms that rapidly lose old customers and gain new ones operate in risky and uncertain marketing environment. Firms seek to build and maintain good customer relations by maximizing consumer satisfaction and customer-care services. Customer relations are especially important in service organizations like commercial banks and insurance companies and those producing consumer durables like TVs, refrigerators and cars with product life spanning over a number of years. Firms serve their customers through product guarantees, maintenance and replacement, consumer information and consumer satisfaction surveys. These are also the components of a customer relation strategy.

   Credibility is the kingpin of good firm-customer relations. A firm must enjoy credibility among customers regarding its claims on product

quality, safety and genuineness. Any firm enjoying customer confiden
can economize on advertising and needs smaller promotional expens
on new products and models. Singer, Philips, Samsung, GKW, Baj
Hindustan Levers, Cipla and Proctor & Gamble are some such bran
which command a high level of customer confidence,

3. Competitors

A firm's competitors include not only the other firms which market t
same or similar products but also all those who compete for t
discretionary income of the consumers. For example, the competition f
a company's televisions may come not only from other T.
manufacturers but also from two-wheelers, refrigerators, cooking rang
stereo sets and so on and from firms offering savings and investm
schemes like banks, Unit Trust of India, companies accepting pub
deposits or issuing shares or debentures etc. This competition amo
these products may be described as desire competition as the prima
task here is to influence the basic desire of the consumer. Such des
competition is generally very high in countries characterized by limi
disposable incomes and many unsatisfied desires (and, of course, w
many alternatives for spending/investing the disposable income).

If the consumer decides to spend his discretionary income on recreat
(or recreation education) he will still be confronted with a number
alternatives to choose from like T.V stereo, two-in-one, three-in-one
The competition among such alternatives which satisfies partic
category of desire is called generic competition. If the consumer deci
to go in for a T.V., the next question is which form of the T.V black
white or color with remote control or without it etc. In other words, th
is a product form competition. Finally, the consumer encounters
brand competition i.e., the competition between the different brands
the same product form. An implication of these different demands is
a marketer should strive to create primary and selective demand for
products.

4. Marketing Intermediaries

The immediate environment of a company may consist of a numbe
marketing intermediaries which are "firms that aid the company
promoting, selling and distributing its goods to final buyers"
The marketing intermediaries include middlemen such as agents
merchants who help the company find customers or close sales

them, or physical distribution firms which assist the company in stocking and moving goods from their origin to their destination" such as warehouses and transportation firms; marketing service agencies which "assist the company in targeting and promoting its products to the right markets such as advertising agencies, marketing research firms, media firms and consulting firms; and financial intermediaries which finance marketing activities and insure business risks.

Marketing intermediaries are vital links between the company and the final consumers. A dislocation or disturbance of the link, or a wrong choice of the link, may cost the company very heavily.

5. **Financiers**

   Another important micro environmental factor is the financiers of the company. Besides the financing capabilities, their policies and strategies, attitudes (including attitude towards risk), ability to provide non-financial assistance etc. are very important.

6. **Publics**

   A company may encounter certain publics in its environment. "A public is any group that has an actual or potential interest in or impact on an organization's ability to achieve its interests." Media publics, citizen's action publics and local publics are some examples. Some companies are seriously affected by such publics. Environmental pollution is an issue often taken up by a number of local publics. Actions by local publics on this issue have caused some companies to suspend operations and/or take pollution abatement measures. Non-government organizations (NGOs), particularly in developed countries, have been mounting up protests against child labor, cruelty against animals, environmental problems, and so on. Experts of developing countries, particularly, are affected by such developments.

Macro environment

Important macro environment factors include:

1. **Economic Environment**

   The economic environment is made up of macro level factors that affect the business of an organization.

- Economic stages that exists at a given time in a country
- Economic structure that is adopted by a country for exampl Capitalistic, Socialistic or Mixed Economy
- Economic planning, such as five year plans, budgets, etc.
- Economic policies for example, monetary, industrial and fisc policies
- Economic Indices such as National Income, Per Capital Incom Disposable Income, Rate of growth of GNP, Distribution of Incom Rate of savings, Balance of Payments etc.
- Infrastructural factors such as financial institutions, banl communication facilities, modes of transport, energy sources, etc.

2. Legal Environment

Legal system of a country has a profound impact on decisions concerni both investment and operations in business as it touches the v existence and legality of business firms. It gives permanent effect economic policies and provides a sense of security and safety to busin enterprises. It establishes codes and procedures for various types aspects of business and deals with deviations or infringement law bribery, product counterfeiting, gray markets, black markets, consur deception and tax evasion. The coverage, efficiency and efficacy of legal system determine adequacy, cost and speed of economic justice these factors are of great importance for the growth of business.

3. Cultural Environment

Culture is a set of socially accepted and shared set of traditional beli norms, values and customs. It differs among various population groups causing differences in the perception of society and consun towards various product and service groups.

Culture has a profound impact on the language, literature communication process within a society and business firms have to ac their marketing communication to the cultural characteristics. Often fi find it useful to segment their total market on the basis of cult divisions among their customer base. This is so because culture i important determinant of consumer tastes and preferences. It particu affects food habits and attaches values to certain kinds of products services.

4. Demographic Environment

Demographic characteristics of a country have an important influence on business environment. Apart from the size and growth rate of population, demography includes population density (population per square km of area), sex ratio (male-female ratio), fertility and mortality rates, age composition, life expectancy and geographical distribution of population. The size of population determines the supply of human resources in a country which along with demand for it, determines the wage and salary structure. In overpopulated countries like India and China, wage and salary structures are low and induce business firms to go in for labour intensive technologies. Cheap labour is one of the important attraction for foreign direct investment through MNCs in such countries as it offers them cost advantages. The geographical distribution of population and population density in different regions affects urbanization and labour migration. Markets with high population concentrations ate attractive to firms as the marketing costs per unit of sale are low. The age structure of population and sex ratio are good guides for a firm to decide the product mix as the types of products demanded substantially vary according to age and sex. Demographic factors are important bases for market segmentation and product positioning far marketers.

5. Technological Environment

The technological environment comprises those factors related to applied knowledge and the materials and machines used in the production of goods and services. Some of the important technological factors that affect business organization are:

- Sources of technology (company sources, external sources and foreign sources), cost of acquisition of technology, etc.
- Technological development, stages of development change, rate of change of technology and research and development.
- Impact of technology on human being and the effects of technology on environment
- Communication and Infrastructural technology and technology in management.

6. **Political Environment**

The philosophy and approach of the political party in power substanti influences the business environment. For example, the communist ru state of West Bengal has the largest number of industrial dispu Similarly, during the Janata Party rule in the centre, IBM and Coca-c had to wind up their business. In the kingdom of Saudi Arabia, busin environment and the social system are regulated largely by Isla religious law. Thus, the management of business enterprises and t policies are considerably influenced by the existing political system.

7. **International Environment**

This is among the most dynamic and volatile components of busir environment. At the outset, it must be appreciated that this layer conc all business firms whether they have international transactions or no firm without foreign trade and foreign investment can experienc change in market share while competing with a firm having b domestic and international business. A variation in exchange rate aff the prices of imported goods, which, in turn, can bring about a chang the prices of competing domestic goods. This can affect the produc cost of 3 purely domestic firms necessitating a change in the market p of its products.

The international environment is basically determined by the growt the world economy, distribution of world GDP, economic relations interdependence between nations and international economic policie major industrial market economies, multinational corporations (MN banks and multilateral institutions like International Monetary F (IMF), World Trade Organization (WTO), World Bank and Internati Labour Organization (ILO).

8. **Competitive Environment**

The state of market competition is one of the major factors affecting rate of growth, income distribution and consumer welfare. For individual business, the state of competition spells out freedom of e and exit in the market and affects its price and scale of output under lo run profit-maximizing behaviour.

Competitive Structure of Industries

The effective formulation of strategy needs a clear understanding of competition. Competition in an industry is determined not only by existing competitors but also by other market forces such as customers, suppliers, potential entrants, and the existence of substitute products. Understanding the sources of competition can help the firm to gauge its own strengths and weaknesses, and to perceive the trends in the industry so that it can position itself optimally for the best returns. **Michael E. Porter of the Harvard Business School has developed a framework known as the 'Five Forces Model'** to help managers to analyze the business environment. According to Porter, the five forces, namely, the threat of new entrants, the bargaining power of buyers, the bargaining power of suppliers, the rivalry among existing players, and the threat of substitute products, play a vital role in shaping the company's future.

1. Threat of New Entrants

New entrants to an industry bring in new capacity, and capture market share from the existing players. The result is more players and more competition. This situation can lead to price wars, which can result in falling returns. This decline in profitability becomes a problem for the new entrants too. The willingness and ability of firms to enter a particular industry depends on the barriers to entry. These are:

- **Economies of Scale**

  Firms realize economies of scale as the output of manufacturing units increases. They manufacture goods at a lower average cost compared lo other manufacturers with lower levels of output. These economies of scale act as a barrier against firms which consider entering an industry with a smaller manufacturing capacity. Economics of scale realized in several functions can act as barriers. For example, Xerox and GE were unable to enter the mainframe computer industry mainly due to their lack of scale economies in production, marketing, research and service. Similarly, economies of scale create barriers in distribution, utilization of the sales force, and financing for the business.

- **Product Differentiation**

  Firms differentiate their products by establishing brand identifica and customer loyalty. Brand identification and customer loyalty be built through advertising, customer service, product difference first mover advantage. Product differentiation thus forces the entrant to spend huge amounts lo overcome this cost disadvantag soft drinks, cosmetics, investment banking, and public accoun differentiation is the most important barrier protecting existing fi Brewing companies employ differentiation along with economie scale, distribution, production, and marketing to create barriers w are almost impenetrable.

- **Capital Requirements**

  A firm needs capital not only for advertising and R&D, and but for customer credit, inventories, and to absorb start-up losses. I capital requirements limit the number of players in industries su computer manufacturing and mineral extraction.

- **Cost advantages to the existing firms**

  Existing firms in an industry sometimes enjoy advantages that ar available to new:' entrants. These advantages spring from the ef of the learning curve and the experience curve. Similarly, propri technology, access to the best sources of raw materials, a purchased at lower prices, government subsidies and favo locations can give competitive advantages to existing firms i industry.

- **Access to Distribution Channels**

  The product of a new entrant must replace the products of ex firms and occupy shelf space. New entrant trics to ensure replacement through price breaks, promotions, intense salesma or other means. However, if there are a limited number of distrib channels, it will be more difficult for the new entrant to gain s space. This is because the existing players may have already er into exclusive agreements to promote their products. To overcom problem, the new entrant may be forced to create its own distrib channels. Timex for example, had to create its own distrib channels to sell its watches in the marketplace.

- **Government Policy**

  The government can use its discretion to influence the competition in an industry by imposing controls, mandating license requirements, and limiting access to raw materials. Barriers to entry arc also created when the government imposes regulations pertaining to air and water pollution standards, product safety and efficacy. For example, pollution control requirements can increase the capital needed for the installation of sophisticated equipment. Standards for product testing, common in industries like food and health related products, can lead to substantial lead times and raise the capital cost of entry.

2. **Intensity of Rivalry among Existing Competitors**

   Rivalry among existing competitors is often the most conspicuous of the competitions. Firms in an industry are "mutually dependent" - competitive moves of a firm usually affects others and may be retaliated. Common competitive actions include price changes, promotional measures, customer service, warranties, product improvements, new product introductions, channel promotion etc. There are a number of factors, which influence the intensity of rivalry. These include:

- **Number of Firms and their Relative Market Share, Strengths etc.:** Rivalry is likely to be affected by the number firms, their relative market shares, competitive strengths, etc.
- **State of Growth of Industry:** In stagnant, declining and, to some extent, slow growth industries a firm is able to increase its sales only by increasing its market share, i.e., at the expense of others.
- **Fixed or Storage Costs:** When the fixed or storage costs are very high, firms are provoked lo take measures to increase sales for improving capacity utilisation or reducing storage costs.
- **Indivisibility of Capacity Augmentation:** Where there are economies of scale, capacity increases would be in large blocks necessitating, in many cases, efforts to increase sales to achieve capacity utilisation norms.
- **Product Standardisation and Switching Costs:** When the product of different firms are standardised, price, distribution, after-sales service, credit etc. become important strategic variables of competition. Absence of switching costs makes firms more vulnerable.
- **Strategic Stake:** Rivalry in an industry becomes more volatile if a number of firms ha high stakes in achieving success there. For

example, a firm which regards a particular industry as its core business will give great importance to success in that industry.

- **Exit Barrier:** High exist barriers (for example, compensation fo labour, emotional attachment to the industry etc.) tend to keep firm competing in an industry even thou the industry is not very attractive.
- **Diverse Competitors:** Rivalry becomes more complex an unpredictable when competitors are very diverse in their strategie origins, etc
- **Switching Costs:** In some cases a barrier to entry is created ke switching costs (i.e., or time costs facing the buyer of switching fro one supplier's product to another's) such as cost of retraining th employees, cost of new ancillary equipment etc.

3. The Bargaining Power of Buyers

Customers are the ones who buy products from the firm. But they a not always the final users of the product. For example, for Unilev the direct buyers of its detergents are wholesalers and retailers. Bu buyers such as supermarket often have greater bargaining power i they can ask for lower prices from the supplier company, than sin customers or small retailers. If buyers are in a weaker bargaini position than the supplier, the supplying company can hike prices a make high profits on that basis. Thus, the bargaining power of buy is one of the factors in industry-level strategic analysis. Porter s that buyers are powerful under the following circumstances:

- When the suppliers are many and the buyers arc a few and large
- When the buyers purchase in large quantities.
- When the supplier's industry depends on the buyers for a la percentage of its total orders.
- When the buyers can switch orders between supply companies low cost
- When it is economically feasible for the buyers to purchase input from several companies at a time.
- When the buyers can use threat to provide for their own n through vertical integration as a device for forcing down prices

For xample, the buyers of auto components are powerful. In US buyers are General Motors, Ford and Chrysler. There arc nume suppliers of auto components.

4. The Bargaining Power of Suppliers

The bargaining power of suppliers determines the company's profitability when the suppliers arc able to force the price that the buyer must pay for the product. Suppliers arc powerful under the following circumstances:

- When the product that they sell has few substitutes and is important to the purchasing company or buyer.
- When no single industry is a major customer for the suppliers.
- When products in the industry are differentiated to such an extent that they are not easily substitutable and it is costly for a buyer to switch from one supplier to another.
- To raise prices, the supplier can use the threat of vertically integrating forward into the industry and competing directly with the buying company.
- The buying companies cannot use the threat of vertically integrating backward and supplying their own needs as a means to reduce input prices.

An example of a powerful supplier is Intel, the world's largest manufacturer of microprocessors. Manufacturers of personal computers arc dependent on this single powerful supplier of computer chips.

5. The Threat of Substitute Products

A close substitute is a potential threat to the company's product. The existence of a substitute limits the price which can be charged for a product and therefore the profitability of the company.

Topic 2: Economic Environment of Business

Learning objectives:

- To know the major factors that constitute the total economic enviro which have a strong bearing on business
- To be aware of the trends of various Economic indicators

Reference books:

- Business Environment by Suresh Bedi
- Business Environment by Raj Agrawal
- Essentials of Business Environment by K. Ashwathappa
- Business Environment by Francis Cherunilam
- ICFAI- Economics for Managers
- Business Environment by Saleem Shaikh
- Business Environment by Vivek Mittal
- Managerial Economics by D.M Mithani
- Managerial Economics by R.L. Varshney & K.L. Maheshwari

Contents:

- Economic System – Price Control
- Economic Indicators & Trends
- Economic Policies
- Business Cycles
- Role of Financial System.

Economic Environment

The economic environment is made up of macro level factors that affect the business of an organization:

- Economic stages that exists at a given time in a country
- Economic system that is adopted by a country for example Capitalistic, Socialistic or Mixed Economy
- Economic planning, such as five year plans, budgets, etc.
- Economic policies for example, monetary, industrial and fiscal policies
- Economic Indices such as National Income, Per Capital Income, Disposable Income, Rate of growth of GNP, Distribution of Income, Rate of savings, inflation, Balance of Payments etc.
- Infrastructural factors such as communication facilities, modes of transport, energy sources, etc.
- Financial System

Economic System

The economic systems of a country provide another basis for classification of the type of government. These systems serve to explain whether businesses are privately owned or government owned, or if there is a combination of private and government ownership. **Basically three systems can be identified: Capitalism, Communism/Socialism and Mixed Economy.**

Capitalism

Under capitalism, all factors of production - man, machine, money and land are in individual hands. They are free to use them to earn a profit and are free not to use them if they wish. Moreover every body is free to take up any line of economic activity he likes and is free to enter into any contract with other fellow citizens for his profit. In the words of Prof. Louks, **"capitalism is a system of economic organization featured by private ownership and its use for private profit of man-made and nature-made capital."**

Features of Capitalism

1. **Right to Private Property:** Every individual has a right to acq property, to keep it and to pass it on to his heirs
2. **Freedom of Enterprise:** This freedom implies three things: a) Free of enterprise, b) Freedom to use one's property c) Freedom of contrac
3. **Freedom of Choice by Consumer:** Every consumer enjoys a freedo choice of the commodities and services that he wishes to consume.
4. **Profit Motive:** In capitalism, it is the profit motive that governs busi enterprises and induces people to undertake any productive activity.
5. **Competition:** Producers compete with one another to capture consumer's preferences or in selling their commodity as much as they through advertisement, price cuts, concessions, etc. Similarly, the competition among workers for jobs.
6. **Importance of Price System:** Capitalism is said to be governed by p It is the price mechanism, which facilitates the functioning of capital Demand and supply are decided by prices. Rather, it is a two- relationship in the sense that it is price which decides demand and su and it is demand and supply which decide the price. So in capita there is a complex relationship between price, supply and demand.

Socialism

Socialism is based on the philosophy of equality. It believes in a clas society. In socialism, people are supposed to work according to capacity and receive according to their needs.

H. Morrison defined socialism as, **"the important essentials of soci are that all the great industries and the land should be publi collectively owned, and that they should be conducted (in confo with a national economic plan) for the common good instead of pr profit."**

Features of Socialism

1. **Social Ownership of Means of Production:** In socialism, the mea production are the property of the state and not any of private indiv The profit goes to the state exchequer.

2. **No Private Enterprise**: In socialism, production is to be initiated and conducted by the state, which will pay wages and other costs and keep profits to itself. However, in certain fields like agriculture, handicrafts and the cottage industry, co-operatives are allowed.
3. **Economic Planning:** In socialism, the state assumes control of production and distribution. It allocates the scarce resources in accordance with the central economic planning. Economic planning is presumed to ensure an efficient and optimum allocation of resources in the national interest.
4. **Classless Society**: Socialism believes in a classless society. In a socialist state, every individual enjoys equality of opportunity regardless of caste, creed, family and religion.
5. **Consumer is not sovereign:** Under socialism, the consumer docs not enjoy sovereign rights. It is the state which decides what to supply, how much to supply, how to supply and at what price. So consumers do not have any choice in this respect.

Mixed Economy

A mixed economy is a combination of the two extremes socialism and capitalism. In a mixed economy both the private and public sectors exist and work together in the national interest. The chief features of a mixed economy are:

1. **Co- Existence of Public and Private Property:** In a mixed economy, industries of the country are classified into two categories. While industries in the infrastructure and strategic sectors like mining , oils , steel, aluminium, metals , public transport, defense , energy, are under the control of the government, the private sector is allowed to operate in the rest of the industries.
2. **Price System and Government Directives**: In a mixed economy, price are fixed or regulated by the government as well as based on market forces such as demand and supply. In criticai goods like oil, LPG and steel, the government follows administered prices (as set by the government) and market forces decide the price of other goods. Sometimes the government follows administered as well as market prices, where entrepreneur are permitted to sell part of production at market prices and part of the other portion of production to the government at the prices fixed by latter.

3. **Government Regulates and Controls the Private Sector:** Though the private sector is permitted in a mixed economy, it is regulated and controlled by the State. The State uses various measures like regulation, licenses, permits and incentives to regulate and to decide the flow and direction of private investment. The State uses all these means so that private enterprises work in harmony with national priorities.
4. **Consumers' sovereignty is protected:** In a mixed economy, sovereignty of the consumers is protected. Consumers are free to buy commodities of their choice, and producers produce commodities of consumers' choice. The govt. may control the prices of certain essential commodities in the pubic interest, though. In fact, die government protects the consumer from the exploitation by private entrepreneurs.
5. **Government Protects Labor Interest:** In a mixed economy the government protects the labor class and other weaker sections from exploitation by capitalists.

FEAUTURES INDIAN ECONOMY

10th largest in world GDP + 3rd. by purchasing power parity
Agriculture Back Bone. 60%. BPL. Mineral Resource not used
Developing Nation

19th largest merchandise & 6th largest service exporter.

1) Low per capita Income 2) Heavy population pressure
3) pre dominance Agriculture 4)

Administered Prices

Meaning of Administered Prices

According to the Indian economists, an administered price for a commodity is which is decided and arbitrarily fixed by the government. It is not allowed to be determined by the way of market forces of demand and supply. Administered prices in a market economy are the results of government intervention. They are prescribed by the government rather than determined by the market mechanism. For example, prices of petrol, diesel, kerosene and liquid gas are the administered prices

In short, administered prices are the prices which are fixed and enforced by the government. The following are the major characteristics of administered prices:

- They are fixed by the government.
- They are statutory, i.e., they are legally enforced by the government.
- They are regulatory in nature.
- They are meant as corrective measures,
- They are the outcome of the price policy of the government

Need for Administered Prices

Administered prices imply government intervention in the free functioning of the market mechanism. There are many reasons for the government intervention in the market and fixation of prices: areas of agricultural and non-agricultural (industrial) sectors. The need for administered prices may be stressed on the following counts:

- To correct the imperfections of the market mechanism and lopsidedness in price structure of the free enterprise or mixed economy. In reality, the assumptions of perfect competition do not hold good, so the 'invisible hands' of market mechanism fail to provide optimum allocation of resources, nor will it ensure full employment of available resources or an equitable distribution of income. Thus, the government intervention through administered price policy is warranted.
- To check the undesirable price rise, of scarce essential consumption goods and raw materials, especially, when their demand outstrips their supply.

- To check the undue price rise of scarcely available essential consumption goods and raw materials, especially, when their demand outstrips their supply.
- To provide a relatively stable and assured income to the farmers, in the wake of fluctuating land produce on account of changing weather conditions, especially the vagaries of monsoon
- To put a check on high prices charged by the producers under the profit maximization motive by taking the advantage of their monopolistic position or growing market demand against slow pace of the growth of market supply.
- To provide wage goods and other essential items of mass consumption at low subsidized prices to the poor sections of society.

Objectives of Administered Prices

There are many objectives or purposes behind administered prices or the price fixation by the government. Some of these are:

- **To protect the interest of the weaker sections of the society:** On equity consideration, administered prices are meant to confer benefits to the poor by providing commodities, especially, food and clothing items at a much lower rates, sometimes even below the cost of production or lower than the support or procurement price paid by the government. The whole purpose is to protect the weaker sections from excessive price mark ups of necessary consumption goods.
- **To discourage or encourage the consumption or certain commodities:** The government may aim at changing the pattern of consumption through administered prices. By raising prices of certain commodities, the purpose may be to put a check on their consumption. For example, time to time the government has been raising the prices of petroleum and petroleum products with a view to curb its increasing consumption. Likewise, to encourage consumption of certain commodities, their prices may be lowered for a certain section of people. In this regard, the system of dual pricing is introduced. Under the dual pricing system there is a levy price for the commodity like cement, sugar, etc. which is made available! poor section at a lower rate so as to encourage its consumption among the poor. Simultaneously, there is a free market price for the rest of the stock, for which the rich buyers pay higher price. In India, for

instance, the prices of fertilizers have been deliberately kept low to induce more consumption/utilization by the farmers and thereby to improve agricultural productivity.

- **To mitigate Inflation or prevent stagflation:** Through price control the government may wish to suppress inflation in the sensitive spots. Price stabilization is the avowed objective of administered price policy of the government. The policy of price control may also aim at countering the stagflation in the economy. Stagflation refers to the phenomenon of high and rising prices accompanied by declining productivity, and falling rate of industrial output, i.e., recession. Thus, administered] policy may be designed to avert recession.
- **To raise public revenue:** By raising the administered prices of certain commodities under public monopolies, the government may intend to raise its revenue to meet its increased budgetary expenditure. Administered prices may be considered for the revenue purpose as an alternative to deficit financing or additional taxation in a direct sense. However, arbitrary rise in administered price (much above the cost) of goods under public monopolies is, essentially, a tax in disguise.
- **To ensure the efficient allocation of resources:** The administered prices may be designed to correct imbalances and distortions in the investment sector of the economy thereby to ensure efficient allocation and optimum use of the productive resources. The administered price policy may channelise investment in specific fields. By and large, the administered prices are meant to ensure that the free play of market mechanism does not result in mal-allocation of resources and distortion of the relative price structure.
- **To promote egalitarian goal:** The government may fix up the prices of certain commodities just to cover up their costs in order to supply them on a no profit no loss basis, thereby to improve economic welfare of the masses and fulfill the socialist goal.
- **To ensure equitable distribution of scarce goods:** An important purpose of the administered price policy is to ensure equitable distribution of commodities in short supply according to the needs and requirements of the various consumers, users at reasonable prices. It is also meant to ensure their adequate supply to the priority sectors.

Economic Indicators & Trends

In order to understand the dynamics of business environment, it is essential to understand the nature of key indicators of macroeconomic environment. Macroeconomic analysis attempts to study and explain why macroeconomic problems like unemployment, inflation, business cycles etc. exist in an economy and how these problems can be tackled. These indicators are important variables through which the overall state of the economy is reflected. Key indicators are as follows:

1. **Gross domestic product** is one of the most basic and important indicators of the overall health of an economy. Gross domestic product, is the sum total of the output of the various constituent sectors of an economy and as a matter of convention, all over the world is computed on an annual basis. It provides the measure of aggregate output and its comparison over time enables us to calculate the rate of growth (usually calculated both at current and constant prices). At current prices, GDP growth is partly due to increase in output and partly due to increase in prices so that GDP at current prices can give misleading conclusions on growth. To avoid such difficulties, GDP data is also calculated at constant prices taking the year in the past as base year.

    - **Nominal GDP** is the value of the total flow of goods and services produced in an economy over a specified period of time (usually a year) at current market price.
    - **Real GDP** is the physical quantity of goods and services produced in a year.

2. **Money Supply**
   Money supply is another important indicator of macroeconomic environment. Money supply in an economy determines liquidity conditions in the market, interest rate structure and hence the cost of capital to the firms, and the rate of inflation. Money supply is basically determined by the central bank of a country (e.g. Reserve Bank of India) and the commercial banking network. RBI has adopted four measures of money supply viz.-M1, M2, M3 and M4 of which M1 and M3 are most popular from operational point of view.

3. Inflation

Movements in the price level are of great concern to policy makers and ordinary' citizens. Prices determine the purchasing power of money incomes and hence have serious implications for living standards.

Inflation is commonly defined as a persistent and appreciable rise in general level of prices. The inflation rate refers to the rate of change in a price index – usually Wholesale Price Index (WPI) or the Consumer Price Index (CPI). During inflation, the purchasing power of money is eroded. In India and many other developing economies inflation measured by consumer price indices (CPI) is generally higher than the one measured by wholesale price index (WPI).

Deflation, or a negative rate of inflation, refers to a decline in the general level of prices. An extreme form of inflation, where prices rise by thousands of percentage points in a year is called "hyper inflation". Hyperinflation was experienced in Germany in the 1920s and Russia in the 1990s. Due to hyperinflation, prices in these countries rose steeply and the price system collapsed completely.

For an economy producing below its potential, many economists have long maintained that inflation of creeping variety will have a positive effect on output and employment. This implies that inflation of a mild sort increases aggregate demand which, in turn, opens up fresh opportunities for business growth. In such an environment not only the demand for existing goods increases but the business can also introduce new items for which demand may be created through dynamic marketing.

Historical evidence shows that rapid price changes disturb the economic decisions of companies and individuals. When the value of a currency falls, people prefer to hold real assets rather than cash. Business firms find that the consumers defer their purchases of durable goods with the expectation that eventually inflation will be brought under control and prices will get stabilised. Taxes become unpredictably unstable, and people lose confidence in their currency. It is this reason why during inflation there is involuntary build-up of inventories. Hence, from the business point of view, inflation does not provide a congenial economic environment. It usually causes slowdown in economic activity and increases unemployment. The government should therefore attempt to

stabilise prices not only in the interest of consumers but in the interest of overall business as well.

4. **Balance of Payments**

A country's Balance of Payments is a systematic record of all economic transactions between that country and the rest of the world. As a result of globalization, transactions among countries have assumed greater significance. These transactions consist of the import and export of goods and services and lending, borrowing and investing in foreign countries. One important indicator of foreign trade is net exports, which is the difference between the value of exports and the value of imports. It is also called the "Balance of Trade'- Negative net exports indicate that imports exceed exports. In contrast, positive net exports indicate dial exports exceed imports.

5. **Economic Policies**

Economic policies of a government play a significant role in determining the economic environment of business in a country. Broadly these policies are classified under four heads: (1) Industrial policy, (2) Trade policy, (3) Monetary policy, and (4) Fiscal policy.

Governments use macroeconomic policies to achieve their economic objectives. These policies influence economic activity and thus help government attain macroeconomic goals. Economic policies include:

1. **Fiscal Policy**

Fiscal policy refers to the policy of the government with respect to its spending (or expenditure) and mobilization of resources (an important source of revenue being taxes). Government expenditure consists of purchases and transfer payments. Government purchases refer to spending on goods and services such as the construction of roads and dams, salaries to public servants, etc. Transfer payments refer to payments of money by the government to some select groups in the form of financial assistance (e.g. payments made to the elderly or the unemployed).Government spending has a positive effect on the overall spending in the economy and thus influences the GDP level. Government, therefore, uses its spending as a tool to control the level of economic activity in the country.

During inflationary period, govt is supposed to counteract its increase in spending. Thus during full employment inflation aggregate demand in relation to limited goods & services is reduced such govt exp are reduced.

Along with exp govt ↑ tax that effectively reduce exp to reduce infl^n. More tax on income to be spent. Tax policy to reduce demand without affect production levels eg sales & excise on products they won't buy

Taxation is another important instrument of fiscal policy, which affects the economy in two ways. Changes in the tax structure have a direct impact on people's disposable incomes (i.e. total income 'minus' tax payment), which in turn affects the amount they spend on goods and services and the amount they save. An increase or decrease in private consumption and savings affects the overall output and investment in the economy in the short as well as the long run.

Taxation also affects the prices of goods and services and factors of production. For example, if a low tax is levied on business profits, businessmen will be encouraged to invest in capital goods, which will spur investment and speed up economic growth.

2. Monetary Policy

The monetary policy of a country is formulated and implemented by its central bank (in India, the Reserve Bank of India). It is used to influence the total quantity of money, interest rates and total volume of credit in the economy. All these affect 'real' macro variables such as GDP, capital formation, employment and price level.

RBI as central bank of our country formulates and conducts monetary policy. The monetary policy represents policies, objectives, and instruments directed towards regulating money supply and the cost and availability of credit in the economy. In the monetary policy framework, broad objectives are prescribed and an operating framework of policy instruments to achieve them is formulated. These objectives are: maintaining price stability and ensuring adequate flow of credit to productive sectors so as to assist economic growth.

3. International Trade Policy

Trade policies relate to tariff and non-tariff trade regulations that limit or promote the imports and exports of a country. The last part of the 20th century witnessed an increase in the pace of globalization which made many world economies highly dependent on international trade. During the 1970s and 1980s many East-Asian countries used their trade policies strategically, to increase economic growth.

India began the process of globalization and liberalization when faced with the economic crisis of 1991. As part of the liberalization process,

the Government of India introduced significant changes in its import-export (EXIM) policies.

4. **Industrial Policy**
Among various economic activities, industrial activity is more directly related to business. In fact, the present day corporate business has grown as an extension of industrial activity. Therefore, for analysing economic environment of business, industrial policy of the government has to he carefully examined. Industrial Policy is an important document which indicates the relationship between government and business. It lays a wide canvas and sets the tone for implementation of government's regulatory and promotional roles. It is helpful to industrialists and others for deciding areas and priorities of their investments.

6. **Business Cycle**

1. **Prosperity**
From the point of view of business, the prosperity phase of business cycle is ideal. In this phase the economy expands in response to growing aggregate demand and business firms have many options. Expectations of rising profits induce firms to expand the scope of their activities. New products are introduced in this period and markets are created for these product. In the prosperity phase, rapidly rising incomes of the people allow them to increase their consumption substantially and whichever firm can take advantage of this situation by taking appropriate policy decisions will register rapid growth. The wave of optimistic sentiment which prevails in this period sometimes misleads overzealous business executives and they attempt to over expand their business activities. Lack of caution in this regard during the prosperity phase may lead to losses when the economy lakes a downturn. In the period of economic meltdown no strategic management can save an over expanded firm from its doom.

During the prosperity phase itself certain farces are activated which ultimately lead to recession. The most important of these factors is narrowing down of the profit margin due to a gradual increase in costs relative to prices. Business executives of modern firms often attempt to tackle this situation through aggressive marketing. They expect that

extensive advertising will allow them to raise prices of (heir products while costs are rising. This may happen for some time, but ultimately at high prices demand will fall and the recession will set in.

2. **Recession**

Forces of contraction get strengthened during recession. The recession usually gets reflected in the form of stock market crash and some fall in prices. The aggregate demand gradually declines and thus incentive for investment is killed. Shrewd entrepreneurs observing ensuing recession abandon new projects, resulting in a sharp reduction in demand for capital equipment. The demand for consumption goods falls with a lag because people try to stick to their consumption which they had achieved in the expansion phase. Intelligent managers of the corporate enterprises like Nestle India, Hindustan Lever and Colgate-Palmolive Ma have greater chances of survival during the recessionary periods. These firms produce a variety of consumer goods for which there is substantial demand in India. During the recession when demand diminishes these firms can easily modify their products to suit the shrinking budget of the people. Other firms which cannot show a similar dynamism may suffer losses.

3. **Depression**

Following recent recessions some economies have moved into a period of sustained recovery. In cases when recessions persisted over a long period, economies got pushed into depression. Depression is characterized by low economic activity, a notable fall in production and employment, decline in general price level, deterioration in business prospects and continuous erosion in the profits of producers and traders. During the depression phase, there is an atmosphere of pessimism. These are the conditions in which certain firms suffer heavy losses and finding uncertain situation, these firms are not very hopeful of earning profits. These firms are thus reluctant to make investment. Deteriorating business prospects and abandoning the investment activity further deepens the crisis. However, sooner or later there is recovery in aggregate demand and with it depression comes to an end.

Financial System

While households are net savers, business firms are net investors. Therefore, there is a continuous flow of funds between the household sector and the business sector. When business enterprises raise funds through issue of shares and bonds which are subscribed by individuals the mobilization of funds is direct from the household sector to the business.

Since finance is a basic requirement of business, the level of development of the financial system is crucial importance for business. A financial system is a complex, well-integrated set of sub-systems of financial institutions, markets, instruments, and services which facilitates the transfer and allocation of funds, efficiently and effectively

The Indian Financial System

The Indian financial system can also be broadly classified into the formal (organized) financial system and the informal (unorganized) financial system.

The formal financial system comes under the purview of the Ministry of Finance (MOF), Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), and other regulatory bodies.

The informal financial system consists of:

1. Individual moneylenders such as neighbours, relatives, landlords, traders, storeowners, and so on.
2. Groups of persons operating as "funds" or "associations." These groups function under a system of their own rules. These groups use names such as "fixed fund," "association," "saving club," and so on.
3. Partnership firms consisting of local brokers, pawnbrokers, and non-bank financial intermediaries such as finance, investment, and chit-fund companies.
4. In India, the spread of banking in rural areas has helped in enlarging the scope of the formal financial system.

Components of the Formal Financial System

The formal financial system consists of four segments or components. These are: financial institutions, financial markets, financial instruments, and financial services.

Financial Intermediaries: Financial institutions are intermediaries that mobilize savings and facilitate the allocation of funds in an efficient manner. They play a vital role in economic development via capital formation. Major financial intermediaries in Indian financial system are:

1. **Banking:** Banks primarily collect savings in the form of deposits and traditionally finance capital requirements of corporates. However in tune with the emerging needs of economic and financial system, banks have entered into 1) term lending business particularly in infrastructure sector 2) capital market directly /indirectly 3) retail finance and so on.
2. **Non-banking financial institutions:** In India, among non-banking financial institutions, are the Developmental Financial Institutions (DFIs) such as the Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI), Industrial Financial Corporation of India (IFCI), Small Industries Development Bank of India (SIDBI) and Industrial Investment Bank of India (IIBI) and Non-Banking Financial Companies (NBFCs)
3. **There are state-level financial institutions** such as the State Financial Corporations (SFCs) and State Industrial Development Corporations (SIDCs) which are owned and managed by the State governments. In the post-reforms era, their role and nature of activity have undergone tremendous change. Banks have now undertaken non-bank activities and financial institutions are planning to undertake banking functions.
4. **Mutual Funds:** A Mutual fund is a special type of investment institution which acts as an investment conduit, It pools the savings of small investors and invest them in a well diversified portfolio. Mutual fund issue securities known as units to the investors known as unit holders in accordance with quantum of money invested by them. The profit or losses are shared by investors in proportion to their investments.
5. **Insurance organizations:** They invest savings of their policy holders (insurance premium) and in exchange promise them a specified sum

at a later stage (on maturity of the insurance policy) or upon the happening of a certain event (Death of a policy holder). They occupy a dominant position among all savings institutions. This is because insurance appeals to investors due to a number of reasons such as to create emergency fund to safeguard family against any misfortune or to assist accumulation of fund for retirement period.

Financial Markets: Financial markets are a mechanism enabling participants to deal in financial claims. The markets also provide a facility in which their demands and requirements interact to set a price for such claims. The main organized financial markets in India are the money market and capital market.

1. **Money Market**: Money market is a market for dealing in monetary assets of short-term nature, generally less than one year. It refers to that segment of the financial market which enables the raising up of short-term funds for meeting temporary shortages of cash and obligations and the temporary deployment of excess funds for earning returns. The major participants in the money market are the RBI and commercial banks.

   Money market organization/structure comprises of a number of interrelated sub-markets, that is. Call market, Treasury-bills market. Commercial bills market, Commercial papers (CPs) market, Certificate of deposits (CDs) market, Money market mutual funds (MMMFs) and Repo (repurchase) market and so on.

2. **Capital Market**: A capital market is a market for long-term securities (equity and debt). Its focus is on financing of fixed investment in contrast to money market which is the institutional source of working capital finance.

   The purpose of capital market is to

   i. mobilize long-term savings to finance long-term investments;
   ii. provide risk-capital in the form of equity or quasi-equity to entrepreneurs;
   iii. encourage broader ownership of productive assets;
   iv. provide liquidity with a mechanism enabling the investor to sell financial assets;

v. lower the costs of transactions and information; and
vi. improve the efficiency of capital allocation through a competitive pricing mechanism.

A capital market can be further classified into primary and secondary markets. The primary market is meant for new issues and the secondary market is a market where outstanding issues are traded. In other words, the primary market creates long-term instruments for borrowings, whereas the secondary market provides liquidity through the marketability of these instruments. The secondary market is also known as the stock market,

The main participants in the capital market are mutual funds, insurance organizations, foreign institutional investors, corporate and individuals.

Financial Instruments: A financial instrument is a claim against a person or an institution for the payment at a future dale a sum of money and/or a periodic payment in the form of interest or dividend. The term 'and/ or' implies that either of the payments will be sufficient but both of them may be promised.

Financial securities may be primary or secondary securities. Primary securities are also termed as direct securities as they are directly issued by the ultimate borrowers of funds to the ultimate savers. Examples of primary or direct securities include equity shares and debentures. Secondary securities are also referred to as indirect securities, as they are issued by the financial intermediaries to the ultimate savers. Bank deposits, mutual fund units, and insurance policies are secondary securities.

Financial instruments differ in terms of marketability, liquidity, reversibility, type of options, return, risk and transaction costs. Financial instruments help the financial markets and the financial intermediaries to perform the important role of channelizing funds from lenders to borrowers.

Financial Services: Financial intermediaries provide key financial services such as merchant banking, leasing, hire purchase, credit-rating, and so on. Financial services rendered by the financial intermediaries

bridge the gap between lack of knowledge on the part of investors and increasing sophistication of financial instruments and markets. These financial services are vital for creation of firms, industrial expansion, and economic growth.

Functions of the Financial System

A good financial system serves in the following ways:

1. One of the important functions of a financial system is to link the savers and investors and thereby help in mobilizing and allocating the savings efficiently and effectively. By acting as an efficient conduit for allocation of resources, it permits continuous upgradation of technologies for promoting growth on a sustained basis.
2. A financial system not only helps in selecting projects to be funded but also inspires the operators to monitor the performance of the investment. It provides a payment mechanism for the exchange of goods and services and transfers economic resources through time and across geographic regions and industries.
3. It makes available price-related information which is a valuable assistance to those who need to take economic and financial decisions.
4. A financial system helps in the creation of a financial structure that lowers the cost of transactions. This has a beneficial influence on the rate of return to savers. It also reduces the cost of borrowing. Thus, the system generates an impulse among the people to save more.
5. A well-functioning financial system helps in promoting the process of financial deepening and broadening. Financial deepening refers to an increase of financial assets as a percentage of the Gross Domestic Product (GDP). Financial broadening refers to building an increasing number and a variety of participants and instruments.

Topic 3. Industrial Scenario in India

Learning Objectives:

- To understand the problem of industrial units in India
- To realize the impact of New Economic Policy 1991 on the performance of Industrial Units
- To know recent trends of consolidation that exist in Industrial Units

References:

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- Business Environment by Vivek Mittal

Contents:

- Industrial Policies
- Public Sector Enterprises
- Privatization & Disinvestment
- Problems of Industrial Units

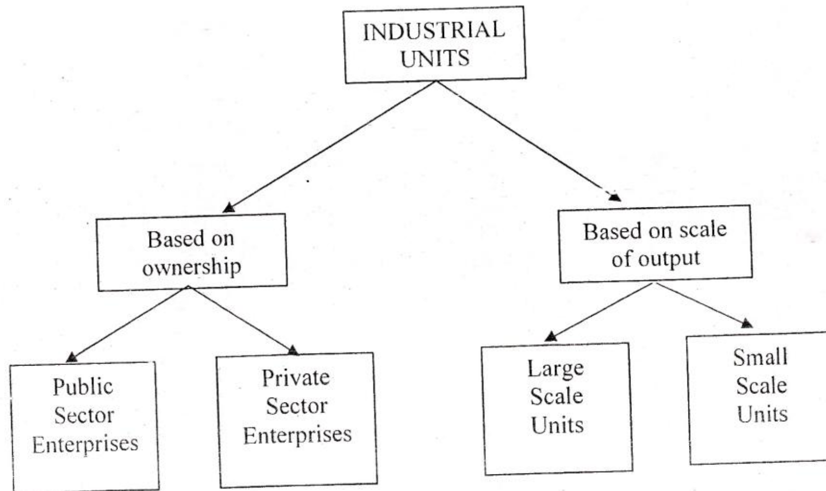
Role of medium & Small scale

→ Backbone of nation econ in developing countries
→ contribute to GDP & [illegible] exports
→ 3 millions 50 mil O/P + 42% Ind export
Objective 1) High contrit GDP 2) Export earning
3) Employ opp 4) Innovation 5) Oper[illegible] flexibil
6) Low Invest

→ Tough Time after liberalisation, good companies [illegible]
Prob

1) Lending Facility – 69% 2001 – 2005
2) marketing 3) Sickness
4) Technological upgr 5) Other

3 7



Small Scale Units:

The small scale units are a vital component of India's industrial sector. They can be categorized into the following:

- Small Scale Industrial Undertakings
- Ancillary Industrial Undertakings (ANCs)
- Export Oriented Units (EOUs)
- Tiny Enterprises
- Small Scale Service Enterprises (SSSEs)
- Artisans, Village and Cottage Industries
- Women Entrepreneur Enterprises

The definition of Small Scale Industry is based on the criterion of original value of plant and machinery. At present, the investment limit for Small Scale Industrial Undertaking is Rs. 1 crore. For an ANC also the limit is the same. However, to facilitate technology upgradation and enhance competitiveness the investment limit has been raised from Rs. 1 crore to Rs. 5 crore in respect of 69 items reserved for manufacture in small scale sector. For tiny enterprises, the investment limit is Rs. 25 lacs.

Public Sector Units:

Public Enterprises in India constitute a major national capability in terms of their scale of operations, coverage of national economy, technological capabilities and stock of human capital. There are over 1000 public sector units, about 800 of which are owned by the states and the rest are in the central sector. E.g., SAIL, Coal India, NTPC, Air India, etc.

Private Sector Units:

The new industrial policy, 1991 abolished licensing and opened up the economy considerably as the result private sector registered a fast growth in post liberalization phase. Opening up of the economy to the foreign competition has forced considerable restructuring of the private corporate sectors via Mergers and Acquisitions as many business houses are now concentrating on core competencies.

Objectives of New Industrial Policy-1991

1. The key objective was rapid industrialization of the country
2. To increase employment opportunities in private sector
3. To improve balance of payments by promoting export - oriented industries
4. Ensure profitability in the public sector
5. Encourage entrepreneurship
6. To de-regulate and de-license the industry to achieve rapid industrialization
7. To invite foreign capital for industrialization and to boost exports
8. To encourage R&D and to bring new technology to produce world class products and services
9. To link Indian economy with the global economy
10. To encourage big business houses and projects to achieve economies of scale
11. Increase competitiveness of the industry to benefit the common man and the nation
12. Rapid development of infrastructure, specially roads and electricity, with active participation of the private sector and FDI

leading to a high cost industrial structure. Adequate attention has also not been given to improvements in technology and quality of products. Some of these factors have led to the emergence of sickness in certain industries particularly when market conditions tend to generate a measure of competition within the economy."" At the end of March 2003, there were 1.71 lakh sick industrial units involving an outstanding bank credit of Rs. 34,816 crore.

6. **Emerging challenges:** As a founder member of the World Trade Organisation (WTQ), India has withdrawn all quantitative restrictions on imports. This is bound to result in intense competition with imports in coming years forcing a number of industrial units to close down. The pressure of competition will be particularly harsh on many small-scale units as they simply cannot withstand competition from resource rich and technologically advanced multinational companies. In fact, even our large private sector companies are just pygmies *vis-a-vis* MNCs and many of them also may find the going tough. As far as the basic goods and capital goods industries are concerned, they might receive a set-back as the end-use industries will now have full access to cheaper imports. Things will not be easy for the end-use industries as well as they will have to compete with foreign goods on both price and quality fronts.

Privatization and Disinvestment

Meaning of Privatisation

It is the process of involving the private sector in the ownership or operation of a state-owned or public sector undertaking. In a broader sense, it connotes private ownership (or even without change of ownership) the induction of private control and management in the PSUs.

Privatisation can take three forms:

1. **Ownership Measures:** The degree of privatization is judged by the extent of ownership transferred from the public enterprise to the private sector. It can take the following forms:

    a. **Total Denationalization:** It is a complete transfer of a public enterprise to the private sector. As done in BALCO, which was

acquired by Sterlite industries. Modern Foods was acquired by Hindustan Lever

b. **Joint Venture:** This implies partial introduction of private ownership. The range of private ownership can vary; it can be as low as 25% and even as high as 75% or more. As in the case of Maruti Suzuki where earlier the majority share were with Maruti but after liberalization, Suzuki increased its stake and became the majority stake holder

c. **Liquidation:** The assets are sold to someone who may use those assets for the same purpose or for any other purpose

d. **Workers Co-operative:** Here ownership of the enterprise is transferred to workers who may form a co-operative to run the enterprise

2. **Operational Measures:** The objective of operational measures is to improve efficiency of the organisation. Operational measures include the following measures:

   a. Grant of autonomy to public enterprise in decision making
   b. Provision of incentives for workers and executives consistent with increase in efficiency and productivity
   c. Freedom to acquire certain inputs from the market
   d. Development of proper criteria for investment planning
   e. Permission to public enterprises to raise resources from the capital market to execute plans of diversification and expansion

Meaning of Disinvestment

Disinvestments connote reducing government stake in the public sector. It may or may not reduce lead to privatization i.e., transfer of control in private hands. As in case of Maruti Suzuki and BALCO disinvestments led to transfer of control into private hands but in case of Public sector banks and most of oil companies disinvestments resulted in issue of shares through IPO route to general public and financial institutions, and therefore majority stake and control remained with the government.

The Problems with Disinvestment (why it couldn't succeed)

1. **Absence of Strategy:** There is no proper strategy for disinvestment. There were no pre-defined norms, standards, or procedures regarding how to disinvest, what to disinvest, when to disinvest, and to whom to disinvest.

2. **Unclear Objectives:** There were no clear objectives, whether it was to meet fiscal deficit, to generate revenue, to increase productivity, to make them more competitive, etc.

3. **Improper Timing:** The government was not concentrating on the timing of disinvestments and as a result most of the private sector investors are shying away from the process because of unattractive offers made by the government. Because of wrong timing many PSUs were privatised at low price, such as ITDC, Maruti, etc. A good price can be obtained if privatisation is done when the performance, market capitalisation and the industry prospects are good.

4. **Difference of Opinion:** There was no consensus over the disinvestments among the various political parties.

5. **Lack of Proper labor Strategy:** Before foraying into disinvestments, labour was not taken into confidence. No proper strategy was formed for their redeployment, training and development. There was labour unrest in BALCO on the issue of disinvestment, and a nationwide strike in PSU banks on the issue of privatisation and consolidation.

6. **Wrong Objectives:** The entire proceeds of disinvestments are being used to mitigate fiscal deficit instead of using them for development of the social sector and building infrastructure.

7. **Opaque:** Lack of transparency in the entire process raises many eyebrows of many and has become a big hurdle.

8. **Lack of Marketing:** The government has done little and failed to attract foreign investors for the disinvestment process in India.

Topic 4: Global Environment and its impact on Indian Economy

Learning objectives:

- To be aware of International environment which has a strong bearing on business
- To be aware of various strategies of going global with special reference to Joint Ventures
- To know the nature of working of MNCs and its impact on host country
- To understand the meaning of Transfer of Technology and its relevance in Indian context
- To know the various issues involved in transfer of technology

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Contents:

- Meaning & levels of globalization
- Reasons for going global
- Foreign Market Entry Strategies with special reference to Joint Ventures
- Multinational National Companies & Technology Transfers

Meaning of Globalisation

Globalization means different things to different people. It can be defined as the expansion of economic activities across political boundaries of nation States. More importantly, perhaps, it refers to a process of deepening economic integration, increasing economic and growing economic interdependence between countries in the world economy.

The important characteristics of globalization are as follows:

1. Rapid growth in international financial transactions;
2. Fast growth in trade, especially among multinational corporations (MNCs);
3. Surge in foreign direct investment, largely contributed by MNCs;
4. Emergence of global markets; and
5. Diffusion of technologies and ideas rapid extension of a globalised transportation and communication system

Why Companies go global?

Undoubtedly, firms cross national boundaries and accept the risk of operating in an unknown environment in the hope of earning more profit and increasing their shareholders wealth. Besides this, there are many other reasons which are as follows

1. **Survival:** Most countries are not as fortunate as that of India, Russia, China or the US in terms of size, resources and opportunities. Most European nations are small in size or most Middle East and South East countries are rich in only one or very few resources. In these countries organizations are bound to do business in and with other countries to survive.
2. **Growth of Overseas Market (Sales):** This has been the biggest reason for more and more companies expanding overseas. In the last 20 years many economies have opened their doors for the world. This resulted in a big opportunity in terms of Market. Most of the European nations, USA, Canada, etc., have a stagnant population growth and very low GDP growth. Emerging economies like India, China, and South East Asia form a significant marker—perhaps more than 35% of the world market. Moreover India and China are amongst the top five countries of the world in terms of Purchasing Power Parity. All these factors led to companies

to tap new markets in emerging economies. Besides these agreements/groups like GATT, GATS, ASEAN, EU, SAPTA, NAFTA, etc., have also created huge opportunities of business for organizations and to tap these, they are going abroad.

3. **Diversification:** No organization wishes to keep all its eggs in one basket. Every organization wants to diversify its risk and internationalization is a good manner to do that, along with sticking to its core competency or old business. Different countries have different trade cycles for the same product. When there is a recession in one economy, there could be a boom in the other and an organization can cover losses in one country by profits. Thus MNCs diversify risk through internationalisation.
4. **Resources:** In today's cut-throat competition, cost cutting is the key to success. Prices are controlled by consumers and the only thing which can be manipulated to increase profit is cost. Organizations go abroad in search of economical sources of supply. A truly global firm always locates its processing and outsources HR and other physical resources from the best suited place available. In fact, this is the reason that more and more companies are establishing their call centers in India. Nike gets its shoes manufactured in South East Asia. Besides Nike even Nokia, IBM, Toyota, Sony, Philips, Samsung, Mitsihuta, Boeing, Airbus, Adidas, GM, Ford, etc., have their manufacturing capacities, research centres, and ancillary units at places best -suited for their purposes.
5. **To Protect Market Share:** Firms also become MNEs in response to increased foreign competition and a desire to protect their home market share.
6. **Tariff and Non-Tariff Barrier:** Organizations establish their operation overseas to deal with tariff and non-tariff barriers. Many time countries impose tariff and non-tariff restrictions on import in such cases. Organizations establish their production unit in the host country so that it can be treated as a local company. In the late 1970, when US imposed some non-tariff restrictions on the automobile import of Japan, Japanese firms began establishing their units in the US so that in terms of taxes they could be treated at par with US firms, Soon, America became the playground of Japanese firms.
7. **Technology Expertise:** One reason for becoming an MNE is to take advantage of technological expertise by manufacturing goods directly (by FDI) rather than allowing others to do it under a license. Many MNCs feel it unwise to give another firm access to proprietary information such as patent, trademarks or technological expertise.

Multinational companies (MNCs)

Meaning and definition:

A company which has gone global is called a Multinational Company. MNCs are normally considered as giant firms engaged in productive activities of a corporate nature with headquarters in one definite country and having a variety of business operations in different countries in a broad based manner.

There is no universally accepted definition of the term multinational corporation. **As an ILO report observes "the essential nature of the multinational enterprises lies in the fact that its managerial headquarters are located in one country (Refer to as home country) while the enterprise carries out operations in the number of other countries as well (host countries)".** This means a corporation that controls production facilities in more than one country, such facilities having been acquired through the process of foreign direct investments. Firms that participate in international business however large they may be solely by exporting or by licensing technology are not multinational companies. To be global (MNC), a company has following characteristics:

- It is a conglomerate of multiple units (located in different parts of the globe) but all linked by common ownership
- Multiple unites draw on a common pool of resources such as money, credit, information, patents, trade names and control systems.
- Product presence in different markets
- Human resource contains high diversity
- Transactions involving intellectual properties such as copyrights, patents, trademarks, and process technology across globe

Merits of MNCs

- MNCs help increase the investment level and thereby income and employment in the host country.
- They become vehicles for the transfer technology especially to developing countries.
- MNCs enable the host countries to increase their exports and decrease their import requirements.
- They work to equalize the cost of factors of production around the world.
- MNCs provide an efficient means of integrating world economies.

- MNCs make commendable contribution to research and development due to their enormous resources
- They also stimulate domestic enterprise. To support their own operations, they encourage and assist domestic suppliers.
- They help increase competition and break domestic monopolies.
- MNCs help to improve the standard of living in their host countries.
- MNCs provide impetus in diversification.
- They substantially contribute towards professionalisation of management in the host countries.
- MNCs contribute towards the national exchequer by way of duties and taxes.
- MNCs play a vital role in developing ancillaries in host countries.
- MNCs are profit making enterprises which pay high dividends, motivating resource mobilization among investors in host countries.

CSR

Demerits of MNCs

- The MNCs main objectives are profit maximization and not the development needs of poor countries, in particular the employment needs and relative factor scarcities in these countries.
- Through their power and flexibility MNCs inflict heavy damage in the host countries through suppression of domestic entrepreneurship, extension of oligopolistic practices passing on unsuitable technology and unsuitable products, worsening income distribution and so on.
- MNCs can have an unfavourable effect on the balance of payments position of the country through outflow of large sums of money in the form of dividends, profits, royalties, interest, technical fees and so on leading to an increasing volume of remittance
- MNCs cause distraction of competition and acquire monopoly powers in the long run.
- The tremendous power of the global corporations may pose a threat to the sovereignty of the nations in which; they do business.
- MNCs retard the growth of employment in the home country.
- MNCs interfere directly and indirectly in the internal political and other affairs of the country.
- They cause harm; by faulty technology transfer to capital intensive in nature affecting employment in a labour supply economy.
- They cause fast depletion of some of the non renewable natural resources in the host country.

- Transfer pricing enables MNCs to avoid taxes by manipulating prices on intra company transactions.
- They have been criticized for their business strategies and practices in host countries. They undermine local cultures and traditions, change the consumption habits for their benefit against the long term interests of the local community, promote conspicuous consumption, dump harmful products in developing countries

Important foreign market entry strategies are the following.

- **Exporting**
- **Contract manufacturing**
- **Licensing / franchising**
- **Assembly operations**
- **Fully owned manufacturing facilities**
- **Joint venturing**
- **Mergers and acquisitions**
- **Strategic alliance**

- **Exporting**
  1. Exporting is the appropriate strategy when one of more of the following
  2. The volume of foreign business is not large enough to justify production in market.
  3. Cost of production in the foreign market is high.
  4. The foreign market is characterised by production bottlenecks like infrastructural problems with materials supplies etc.
  5. There are political or other risks of investment in the foreign country,
  6. The company has no permanent interest in the foreign market concerned or that there is no guarantee of the market available for a long period.
  7. Foreign investment is not favoured by the foreign country concerned

Exporting is more attractive than other modes particularly when under utilized capacity exists. Even when there is no excess capacity, expansion of the existing facility be easier and less costly than setting up production facilities abroad. Further, many governments as in India, provide incentives for establishing facilities for export production.

- **Licensing and Franchising**

  Licensing and Franchising, which involve minimal commitment of resources and effort on the part of the international marketer, are easy ways of entering the foreign markets.

  Under international licensing, a firm in one country (the licensor) permits a firm in another country (the licensee) to use its intellectual property (such as patents, trade marks, copyrights, technology, technical know-how, marketing skill or some other specific skill). The monetary benefit to the licensor is the royalty or fees which licensee pays. In many countries, such fees or royalties are regulated by the government; it does not exceed five per cent of the sales in many developing countries.

  Franchising is "a form of licensing in which a parent company (the franchiser) grants another independent entity (the franchisee) the right to do business in a prescribed manner. This right can take the form of selling the franchisor's products, 'using its name, production and marketing techniques, or general business approach. One of the common forms of franchising involves the franchisor supplying an important ingredient (part, material etc.,) for the finished product, like the Coca-Cola supplying the syrup to the bottlers.

  The major forms of franchising are manufacturer - retailer systems (such as automobile dealership), manufacturer-wholesaler systems (such as soft drink companies), and service firm - retailer systems (such as lodging services and fast food outlets).

  As an entry strategy, it requires neither capital investment nor knowledge and marketing strength in foreign markets. Licensing has been used by many companies also to harvest their obsolete products. This strategy has been employed, in particular, in developing countries.

  Licensing also provides the great advantage of entering the market with a proven product/technology or marketing intangible without having to n. risk of R & D failures. One of the important risks of licensing is that the licensor would be developing a potential competitor; the licensee would become a competitor after the expiry of the licensing agreement. Some companies are, therefore, hesitant to enter into licensing agreements.

- **Contract Manufacturing**

Under contract manufacturing, a company doing international marketing contract with firms in foreign countries to manufacture or assemble the products while retaining the responsibility of marketing the product. This is a common practice in international business.

Contract manufacturing has the following advantages:

1. The company does not have to commit resource for setting up production facilities.
2. It frees the company from the risks of investing in foreign countries.
3. In many cases, the cost of the product obtained by contract manufacturing is lower if it were manufactured by the international firm. For example, the product cost in the small scale sector is much lower than in the large scale sector for many products because of the lower wages, lower overheads, and tax concessions. More over, if excess capacities are available with existing units, it may even be possible to get the product supplied on; the marginal cost basis.
4. Contract manufacturing also has the advantage that it is a less risky way to start with. If the business does not pick up sufficiently, dropping it is easy; but if the company had established its own production facilities, the exit would be difficult.

Contract manufacturing, however, has the following disadvantages:

1. In some cases, there will be the loss of potential profits from manufacturing.
2. Less control over the manufacturing process.
3. Contract manufacturing also has the risk of developing potential competitors.
4. It would not be suitable in cases of high-tech products and cases which involve technical secrets etc.

- **Management Contracting**

Under the management contract, the firm providing the management know-how may not have any equity stake m the enterprise being managed. In short, in a management contract the supplier brings together a package of skills that will provide an integrated service to the client without incurring the risk and benefit of ownership. Management contracts, obviously, have clear benefits for the clients. "They can provide Organizational skills not available locally, expertise that is immediately available rather than built up, and management assistance in

the form of support services that would be difficult and costly to replicate locally.

One possible risk from the point of view of the client is overdependence and loss of control. Some Indian companies - Tata Tea, Harrisons Malayalam and AVT - have contracts to • manage a number of plantations in Sri Lanka. Tata Tea also has a joint venture in Sri Lanka I namely Estate Management Services Pvt. Ltd.

- **Turnkey Contracts**

  Turnkey contracts are common in international business in the supply, erection and I commissioning of plants, as in the case of oil refineries, steel mills, cement and fertilizer plants etc; construction projects and franchising agreements.

  A turnkey operation is an agreement by the seller to supply a buyer with a facility fully I equipped and ready to be operated by the buyer's personnel, who will be trained by the seller. Many turnkey contracts involve government/public sector as buyer (or seller in some cases) A turnkey contractor may subcontract different phases/parts of the project.

- **Wholly Owned Manufacturing Facilities**

  Companies with long term and substantial interest in the foreign market normally establish fully owned manufacturing facilities there. Establishment of manufacturing facilities abroad has several advantages. It provides the firm with complete control over production and quality. It does not have the risk of developing potential competitors as in the case of licensing and contract manufacturing.

  Wholly owned manufacturing facility has several disadvantages too. In some cases, the cost of production is high in the foreign market. There may also be problems such as restrictions regarding the types of technology, non-availability of skilled labour, production bottlenecks due to infrastructural problems etc. If the market size is small, a separate production unit for the market may be uneconomical. Foreign investment also entails political risks.

  Moreover, this method demands sufficient financial and managerial resources on the part the company.

- **Joint Ventures**

Joint venture is a very common strategy of entering the foreign market. The essential feature of a joint ownership venture is that the ownership and management are shared between a foreign firm and a local firm. In some cases there are more than two parties involved.

In countries where fully foreign owned firms are not allowed or favoured, joint venture is an alternative if the international marketer is interested in establishing an enterprise in the foreign market. Many foreign companies entered the communist, socialist and other developing countries by joint venturing.

One important advantage of joint venturing is that it permits a firm with limited resources inter more foreign markets than might be possible under a policy of forming wholly owned subsidiaries.

- **Mergers and Acquisitions**

Mergers and acquisitions (M & A) have been a very important market entry strategy as well as expansion strategy. A number of Indian companies have also used this entry strategy. Mergers and acquisitions have certain specific advantages. It provides instant access to markets and distribution network. As one of the most difficult areas in international marketing is the distribution, this is often a very important consideration far M & A. Another important objective of M and A is to obtain access to new technology or a patent right. M and A also has the advantage of reducing the competition.

Mergers and acquisitions may also give rise to some problems which arise mostly because of the deficiencies of the evaluation of the case for acquisition. Sometimes the cost of acquisition may be unrealistically high. Further, when an enterprise is taken over, all its problems are also acquired with it. The success of the enterprise will naturally depend on the success in solving the problems.

- **Strategic Alliance**

Strategic alliance has been becoming more and more popular in international business. Also known by such names as entente and coalition, this strategy seeks to enhance the long term competitive advantage of the firm by forming alliance with its competitors, existing or potential in critical areas, instead of competing with each other. The

goals are to leverage critical capabilities, increase the flow of innovation and increase flexibility in responding to market and technology changes.

Strategic alliance is also sometimes used as a market entry strategy, for example, a firm may enter a foreign market by forming an alliance with a firm in the foreign market for marketing distributing the former's products, A U.S. pharmaceutical firm may use the sales promotion and distribution infrastructure of a Japanese pharmaceutical firm to sell its products in Japan. In return, the Japanese firm can use the same strategy for the sale of its products in the U.S. market.

Strategic alliances differ according to how they are structured. They can be equity based joint ventures) or non-equity based. Non-equity based alliances such as technology transfer agreements, licensing agreements, marketing agreements etc., are proving to be more dynamic, constructive and more strategic.

Joint Ventures

Meaning of a Joint venture

A joint venture is an association of two or more individuals or business entities who combine and pool their respective expertise, financial resources, skills, experience, and knowledge in the furtherance of a particular project or undertaking. Joint Ventures are generally created for a single activity or project, and may have a limited time span without entirely abandoning their independent corporate structure. Joint Venture agreements, commonly referred to as a "JV", are typically formed either by individuals, business entities, corporations or partnerships. The contributions to the joint ventures are either in the form of money [capital], services, or physical asset(s), i.e. equipment or intellectual property [software, patents], etc., or a combination of all. Compared with a merger, a joint venture might be easier, quicker and cheaper to arrange, and will permit a more flexible and efficient joining of forces. In addition, it could also be less risky commercially and easier to undo than a fully-fledged merger.

A joint venture involves:

- A high level of commitment, funds, time
- A degree of risk
- A management voice for both parties
- Equity participation by each partner

Reasons for forming a joint venture

Internal reasons

1. Build on company's strengths
2. Spreading costs and risks
3. Improving access to financial resources
4. Economies of scale and advantages of size
5. Access to new technologies and customers
6. Access to innovative managerial practices

Competitive goals

1. Influencing structural evolution of the industry
2. Pre-empting competition

3. Defensive response to blurring industry boundaries
4. Creation of stronger competitive units
5. Speed to market
6. Improved agility

Strategic goals

1. Synergies
2. Transfer of technology/skills
3. Diversification

The Disadvantages of a Joint Venture:

1. Potentially high capital cost plus ongoing financial support are required
2. Profitable returns may take some time to achieve
3. High level of commitment of staff and management
4. Time consuming (especially where a new venture is involved)
5. Potential for conflict with your joint venture partner
6. Cultural differences and communications difficulties
7. A minority equity position may work against you
8. Difficult to get out of quickly
9. Working in a different legal and commercial system
10. Political risks in the country where the joint venture is based

Reasons for failure of Joint Ventures:

Joint ventures, like any other long term contracts are prone to difficulties. According to independent studies conducted by McKinsey & co and Coopers & Lybrand 70 percent of JVs are either disbanded or fall short of expectations. Other studies suggest that on an average, JVs do not last as long as one half the terms of years stated in the joint venture agreement.

1. The contract may be too inflexible to permit required adjustments in the future.
2. Lack of commitment and time in implementing the project.
3. Inability or failure to develop the desired technology
4. Lack of adequate pre-planning for the joint ventures

5. Failure to reach an agreement on alternative approaches to achieve the basic objectives of the joint ventures
6. Refusal by managers possessing expertise in one company to share knowledge with their counterparts in the joint venture.
7. Inability of parent companies to share the control or comprise on difficult issues.
8. Competition between the firms for critical managerial position.
9. Cultural variations between the companies involved in the venture
10. Variations in the policies of reinvestment of profits

CONSUMER PROTECTION ACT – 1986 milestone in country.
Enacted in legislation after wide research & in consultation representative of customer, trade, industry & govt representative
Main OBjective – protection of consumer, unlike other law punitive & preventive it is compulsory in nature. Provide simple, speedy & inexpensive response to customer problems

Features :- 1) Compulsory 2) All goods & services unless exempted by govt 3) cover all sectors private public mixed

Rights	Remedies
1) To be protected against good or services which are hazardous	1) Removal of defect from good
2) Informed quality, quantity, purity, std & price of goods against unfair practices	2) Replacement good
3) Access of variety of good @ reasonable price	3) Refund money
4) Consumer Education	4) Award of compensation or loss on injury
5) Seek redressal unfair practices	5) Withdrawal of goods from sale
6) Right to be heard & due consideration	6) discontinue unfair practices

Where
-> upto 5 lakhs -> District Forum
5-20 lakhs Commission notified State Govt or Union Territory
20+ lakh National Commission New Delhi

How
Simple, No fee.

Transfer of Technology

Transfer of technology (TT) between firms in different countries is an important means of globalization. **It is the process by which commercial technology is disseminated. It is the process by which technology developed for one purpose is employed either in different application or by a new user.** Technology is often identified with the knowledge about machines and processes. In a broader sense, it refers to the body of "skills, knowledge and procedures for making, using and doing useful things". It encompasses managerial and marketing techniques as well as techniques directly involved in production. Technology extends to services-administration, education, banking as well as to manufacturing and agriculture.

The transfer of technology covers the transfer from advanced to developing countries of the elements of technical know-how which are normally required in setting up and operating new production facilities and which are usually in very short supply (or totally absent) in the developing economies. The elements of know-how include such things as know-how for conducting feasibility and market studies, know-how for choosing technologies and for engineering design and plant construction – as well as the know-how which is embodied in the production process itself. This latter kind – which is called process know-how – is sometime patented or at least kept secret by the companies which possess it. Process know-how probably gets most attention in the literature on transfer of technology. At the same time, however, the transfer of technology from advanced to under-developed countries involves far more than exchanges of patented process know-how. The technological dependence of the developing countries stems not only from their incapacity to invent new processes and products but also from lack of other, possibly more mundane skills and capabilities, in areas like engineering design, choice of techniques, management and marketing.

Methods of Technology Transfer

Transfer of technology takes a variety of forms depending on the type, nature and extent of technological assistance required. The following are the important methods of technology transfer:

1. **Training or Employment of Technical Expert:** Fairly simple and unpatented manufacturing techniques/processes can be transferred by

imparting the requisite training to suitable personnel. Alternatively, such technology can be acquired by employing foreign technical experts.

2. **Contracts for Supply of Machinery and Equipment:** Contracts for supply of machinery and equipment, which normally provide for the transfer of operational technology pertaining to such equipment, is often quite adequate for manufacturing purposes not only in small scale projects but also in a number of large scale industries where the nature of technology is not particularly complex.

3. **Licensing Agreements;** Licensing agreements, under which the licensor enters into an agreement with a licensee in another country to use the technical expertise of the former, is an important means for the transfer of technology. Licensing agreements are usually entered into when foreign direct investment is not possible or desirable.

4. **Turnkey Contracts:** This is appoint to point technology transfer where organizations either transfer technology to other organizations under certain terms and conditions, or simply establish a project for a host, train its personnel to operate it and transfer the control to the host. In India steel plants of Bokaro and Bhillai etc. are established under this type of contract.

5. **Foreign Direct Investment:** Through FDI route, organizations transfer their technology to target nations either through its own subsidiaries or under a joint venture with local partner of the host nation. In India Hyundai has established its own subsidiary and has brought its own technology to India while Maruti Suzuki, Hero Honda are examples of successful joint ventures where technology transfers have taken place.

Reasons for Technology transfer

1. **Profit from selling Technology:** Many companies sell their technolog[y] to earn the profits. Kodak when after the second world war, had to qu[it] Japanese market because of certain restrictions, it frequently sold i[ts] technology to Japanese firms like Fuji to earn a profit.
2. **Location and Logistics advantage:** Technology is transferred a[s] production may be cheaper abroad and output does not have to b[e] transported over long distances to reach the end consumer.

3. **To obtain grants and subsidies:** Many underdeveloped and developing countries give various incentives to MNCs to invite them and their relative advanced technology into their country.
4. **Limitations of home countries:** Many countries find that the scope for expansion in their own country is limited. In order to expand, they have to transcend their own boundries as well as be ready for technology transfers.
5. **To exploit superior capital markets, access to skilled labour and other inputs in foreign countries.**

Outlook of Technology Transfer

Corporate globalization will continue to provide an impetus for technology transfer. With the growing importance of international trade to domestic economies and with the need to maintain a competitive edge in a global economy, technology will continue to play a major and indispensable role in international business transactions. The recent changes in international political relations have lessened the strategic-defense imperatives for restricting the transfer of technology. As the deregulation of technology transfer continues, technology as a factor in international business will be an increasingly prominent issue in academic, business, and government circles.

Similarly, government investment in global research and development projects, concerns over environmental protection, and the rise of regional economic units will keep the subject matter of technology transfer at the forefront of economic, political, and social interactions for the foreseeable future.

TRIPS :- Intn agreement by WTO
IP law in Intn Trading system for 1st tym
+ comprehensive 1st agreement on IP till now
-> Copyright for 20 yrs unless based on author
-> granted automatically + not any formality regstn
-> programs as "literary works" under copyright law get protection +
-> Patents must be granted in all field of technology if they meet reqmnts
-> legitimate Interest 3rd party taken in account
-> Exception to Exclusive right limited

TRIMS :-
1) Agreement Trade Related Inv Measures. Domestic regln that apply to foreign company under Industrial Policy
Agreed by WTO, concluded 1994 + force in 1995
2) Policies used local content requirement + trade balancing used earlier are now banned
3) TRIMS is one of 4 principal legal agreement of WTO
4) Restrict pref of domestic terms <(

Topic 5: Corporate Social Responsibility

Learning objectives:

- To understand the relationship between a business organization and society
- To know the various responsibilities of a business firm towards the society

Reference Books:

- Business Environment by Suresh Bedi
- Business Environment by Raj Agrawal
- Business Environment by K. Ashwathappa
- Business Environment by Francis Cherunilam
- ICFAI- Business Strategy

Contents:

- Understanding the concept of CSR
- CSR debate
- Factors influencing Social orientation
- CSR implementation

1946 UN wanted to make ITO, committee established for ITO charter.
-> India, NZ, Aust, Pak, Burma,
1946-47 draft made. They did Tariff cutting negotiations among themselves
-> Non Discrimination in Trade
-> Same rights to access markets
-> 132 members adopted principle of non-discrimination
Committee agreed to accept it & it became GATT 30 Oct 1947, 23 & applied 1948 1 Jan

CSR

4 Block
1) MFN -> no partiality, Tariff to all members no discrimin
2) Equal Market Access
3) Principle Trade liberalization
4) Dispute settlement mechanism

Background and Definition

The role of business in society has been debated in economic literature for a long time. By the term 'Corporate Social Responsibility' (CSR) what is generally understood is that business has an obligation to society that extends beyond its obligation to its shareholders or owners. The philosophy is basically to give back to the society, what it (business) has taken from it, in the course of its quest for profit maximization and wealth creation. It could take the form of community relationship, volunteer assistance programs, healthcare initiatives, special education / training programs and scholarships, preservation of cultural heritage, beautification of cities etc.

With the introduction of Global Compact towards the end of century the concept of CSR has been reinforced. The Global Compact was first proposed by the UN Secretary-general Kofi Annan at the World Economic Forum in Davos, in 1999.Referring to the rapid spread of globalization, he emphasized that the world was characterized by glaring and unsustainable imbalance and inequities. He drew attention to the fact that markets were not embedded in universal human values and rights. Referring to the plight of the world's desperately poor populations, he suggested that business should work in a spirit of enlightened self interest to make globalization more inclusive, and consequently less fragile.

There is no single, commonly accepted definition of CSR. But following the US-UK tradition, it can be defined as follows:

"Corporate Social Responsibility is operating a business in a manner which meets or excels the ethical, legal, commercial and public expectations that society has from business."

The **World Business Council for Sustainable Development** defines CSR as: "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large". It may be more appropriate to list the five identified key elements found in most definitions of CSR:

- Corporations have responsibilities that go beyond the production of goods and services at a profit.

- These responsibilities involve helping to solve important soci[a]
  problems especially those they have helped create.
- Corporations have a broader constituency than stockholders alone.
- Corporations have impacts that go beyond simple marketplac[e]
  transactions.
- Corporations serve wider range of human values than can be capture[d]
  by a sole focus on economic values.

The Social Responsibility Debate

Arguments for CSR

- **Changed Public Expectations of Business**
  One of the most potent arguments for social responsibility is that publ[ic]
  expectations from business have changed. It is reasoned that t[he]
  institution of business exists only because it satisfies the valuable nee[ds]
  of society. Therefore, if business wishes to remain viable in the long ru[n]
  it must respond to needs and give the society what it wants.

- **Better Environment for Business** Another argument favoring soci[al]
  responsibility is that it creates better environment for business. Th[e]
  concept rationalises that a better society produces environment[al]
  conditions more favourable for business operations. The firm which [is]
  most responsive to the improvement of community quality of life will [as]
  a result have a better community in which to its business. Labo[ur]
  recruiting will be easier, and labour will be of a higher quality. Turnov[er]
  will be reduced. As a result of social improvements, crime will decrea[se]
  with the consequence that less money will be rated properly, and le[ss]
  taxes have to be paid to support police forces. The arguments can [be]
  extended in all directions to show that a better society produces a bett[er]
  environment for business.
- **Public Image** Another argument in favour of social responsibility is th[at]
  it improves public image. Each individual firm seeks an enhanced publ[ic]
  image so that it may gain more customers, better employees, mo[re]
  responsive money markets and other benefits. A firm which seeks bett[er]
  public image should support social goals.
- **Avoidance of Government Regulation** Government is a massi[ve]
  institution with long arms. It seeks to regulate business in the pub[lic]
  interest. Government regulation is costly and denies the much need[ed]

freedom in decision making. Before the government stretches its long arms, business should discharge its obligation to society.

- **Balance of Responsibility with Power** It is reasoned that businessmen have vast amounts of social power. They do affect the economy, minorities, and other social problems. In turn, an equal amount of social responsibility is required to match their social power.
- **Business has the Resources** Another argument for social responsibility is that business has lot of resources in terms of men, talents, functional expertise and money. With these resources at its command, business is in a better position to work for social goals.
- **Let Business Try** It is that many other institutions have failed in handling social problems, so why not turn to business. Many people are frustrated with the failures of other institutions, and in-they are turning to business.
- **Prevention is Better Than Cure** If business delays dealing with social problems now, it may find itself constancy occupied with putting out social fires so that is has no time to accomplish its goal of producing goods and services. Since these social problems must be dealt with at some time, it is actually more economical to deal with them before they develop into serious social breakdowns that consume most of the management's time.
- **Duty of Gratitude** Business units benefit from society. On the basis of the accepted principle that one owes debts of gratitude towards those who benefit us, the corporation has certain debts that it owes to the society.
- **Globalization** The recent globalisation of large corporations has led to firms operating in countries with very different standards of living than found in their respective home countries. More extensive media reach coupled with advances in information has allowed rapid and widespread exposure of alleged corporate abuses even in the remote parts of the globe, as both Shell (oil spills in Nigeria television documentaries) and Nike have learnt to their cost. Such revelations compel global take social actions.

Failure to undertake social actions may dent the reputation and brand image of the firms. Infact, firms are likely to be penalised by consumers and other stakeholders, for actions that are not considered socially responsible

Arguments against CSR

1. **Loss of Profit Maximisation:** Diverting resources away from the firm to socially responsible programmes undermines the principles of the competitive market and deprives shareholders of rightful economic gain.
2. **Cost:** Social obligations can be very expensive and may render firm unable in going for attractive business investment; or it may even have to go out of business.
3. **Lack of Skills:** Most of businessmen do not have the requisite skill and training to work effectively on social issues.
4. **Dilution of Purpose:** The pursuit of social goals may dilute th economic productivity of the firm.
5. **Too Much Power:** Business can be said to already possess muc power without encouraging it to increase its social influence.

Factors influencing Social Orientation

1. **Promoters and Top Management:** The values and vision promoters and top management is one of the very important facto which influence the corporate social responsibility
2. **Board of Directors:** As it is the Board of Directors which decides th major policies and resource allocation of company, the attitude of th members of the Board is an important influencer of the soci orientation
3. **Stakeholders and Internal Power Relationship:** The attitude various stakeholders like shareholders, creditors, employees etc. an the internal power relationship also affect the orientation of company
4. **Societal Factors:** The social orientation of company is al influenced by certain characteristics of the society and general attitu and expectation of the society regarding the social responsibilities business. For example, a resourceful firm located in a pc community may be expected to contribute to the development education and health facilities etc. of the locality whereas su involvement may not be required of a firm in a well develop community. The behaviour or social orientation expected of busin may vary between different societies

5. **Industry and Trade Associations:** Industry and trade associations also influence the behavior of the firms by establishing professional and ethical codes and norms, education and collective decisions.
6. **Government and Laws:** Laws are society's codification of right and wrong. Anti trust legislations, legislations to curb corruption, unfair practices, vary between nations. What is right or not anti-law in one country may not be so in some country. Further, what is legally controlled in some countries have no legal control in some countries. Besides legislation, there are other methods of government influence like guidelines, persuasion, incentives (like tax exemptions) and pressurising.
7. The social orientation would also depend on the government's view of social responsibility and the power and earnestness of government / agencies (like SEBI, for example) in dealing with defaulting companies.
8. **Special Interest groups:** Sometimes pressure is exerted by special interest groups in society and media to control business practices. These include a variety of non-government ions (NGOs) like consumer interest groups, environmentalists etc. They use a variety of methods like lobbying to persuade government and public agencies to adopt regulatory measures, conducting public awareness campaigns, and even direct confrontation with the business in some cases.
9. **Competitors:** Social orientation of company is also influenced by competitive forces. When one or some companies become socially involved, others may be encouraged or provoked to do some thing.
10. **Ethical Influences:** Another factor influencing the social orientation is the ethical decision making and self-regulation of business conduct. Some companies have well laid down codes and norms of ethical behavior.

Conclusion

The basic objective of CSR is to maximize the company's overall impact on the society and stakeholders. Traditionally the Indian corporate sector has been viewing CSR as an action for community initiatives viz. health, education, welfare measures for the underprivileged etc. However, there is an identifiable shift among the approach of Indian companies towards CSR of late aligning it increasingly with the perception of CSR in the international context. In the context of enlightened self-interest of business for survival in the ever-growing fierce corporate competitive battle, CSR is

seen as critical for protecting reputations, defending attacks, improving bottom line and building business competitive edge. When integrated in the overall business strategy, CSR could be a panacea and protect against sudden corporate downfalls. Hence designing appropriate steps for implementing CSR in an organization can ensure organizational sustainability in the long run.

Topic 7: Corporate Governance

Background and Definition

Corporate Governance and Responsibility issues have come into the limelight in India since the 1990s because of major corporate debacles and scandals that occurred during the decade. During the nineties a large number of companies failed and the economy witnessed a number of rating downgrades, both in the manufacturing and financial sectors. Immediately after liberalization and opening up of the economy, there was a spate of public issues by a large number of companies which thereafter just vanished from the scene leaving thousands of small investors in the lurch. Even their addresses are reportedly not available with SEBI. These incidents had shaken the faith of small investors in the stock market. Hence prolonged depression in the capital markets was on account of such frauds and breach of trust in the corporate sector. This raised an important question: Why were the Board of directors, auditors and the regulatory authorities not able to detect and pre-empt these irregular practices?

In such scenario CII was the first to appoint a committee under the chairmanship Mr. Rahul Bajaj in 1999 as a national level private initiative to evolve desirable rules for corporate governance. This was followed by appointment of as many as four national level committees- two appointed by SEBI, namely Kumar Mangalam Birla Committee in 1999 and N.R. Narayana Murthy committee in 2003, another Committee on financial sector governance, known as Gangly committee Report in 2002 and the fourth committee appointed by the Govt of India known as Report of the Naresh Chandra Committee on Corporate Audit and Governance. This shows that corporate governance is being practiced in India on an even pedestal with anywhere else in the world.

Other factors for the recent interest in Corporate Governance in India which are pressurizing corporate to be more open, transparent and accountable are:

- As we are increasingly moving towards open and market driven economic systems, a number of companies catering to international markets are required to fall in line with international best practices.
- Many Indian companies are floating GDR and ADR issues and getting listed on the NASDAQ/ New York Stock Exchange etc. These

companies are required to comply with enhanced disclosure and stringent listing requirements.

- Institutional investors, both foreign and domestic are becoming important players in the stock market. They are increasingly demanding more information and transparency in operations.

The Kumar Mangalam Birla Committee constituted by SEBI has observed that:

"Strong corporate governance is indispensable to resilient and vibrant capital markets and is an important instrument of investor protection. It is the blood that fills the veins of transparent corporate disclosure and high quality accounting practices. It is the muscle that moves a viable and accessible financial reporting structure."

"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 other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance, OECD April 1999.

Good governance is also a conscious, deliberate and sustained effort on the part of a corporate to strike a judicious balance between its own interest and the interest of various constituents in the environment in which it is operating. Striking a balance between economic and social objectives and reconciling the interests of individual, company and society entails monitoring of the balance between different and often conflicting interest groups, which is the challenge of good corporate governance. In recent times, individual shareholders at AGMs have raised issues of human rights, child labor, environment protection etc. and are being supported by institutions.

Objectives of Corporate Governance

Good Governance is integral to the very existence of a company. It inspires and strengthens investor's confidence by ensuring company's commitment to higher growth and profits. It seeks to achieve following objectives

1. A properly structured Board capable of taking independent and objective decisions is in place at the helm of affairs;
2. The board is balanced as regards the representation of adequate number of Non-executive and independent directors who will take care of the interests and well being of all the stakeholders;
3. The Board adopts transparent procedures and practices and arrives at decisions on the strength of adequate information;
4. The Board has an effective machinery to sub serve the concerns of stakeholders;
5. The Board keeps the shareholders informed of relevant developments impacting the company;
6. The Board effectively and regularly monitors the functioning of the management team; and
7. The Board remains in effective control of the affairs of the company at all times.

The overall endeavor of the Board should be to take the organization forward, to maximize long term value and share holder's wealth.

Ingredients of Good Governance

A study by Mckinsey and company has brought out that:

Almost 75% of investors believe that board practices are as important as financial performance while taking investment decisions in the longer term.

Most institutional investors give high weight age to good corporate governance as they have a long-term interest perspective.

The basic ingredients are:

- Board of Directors has to set proper organization structure, systems, norms and processes for direction, supervision and accountability of their corporate entity.
- A code of best practices covering the constitution of the board, its various committees, defining their goals and responsibilities, exploring preferred internal systems and disclosure requirements.
- Accountability of board of directors to the shareholders.
- Transparency in timely disclosures and right information.

- Clarity in responsibilities of Chairman and Managing Director, other directors through empowerment to enhance accountability.
- Quality, competence and track record of the directors.
- Checks and balances in governance conforming to laws, rules and spirit of codes.

Topic 8. Ecological Issues

Learning Objectives:

- To be aware of various ecological problems
- To understand the impact that environment has on Economic Development
- To know various steps measures that are being taken on a global level to save the environment

References:

- Economic of Business Environment by Misra& Puri
- Environment Management by Bala Krishnamoorthy
- Environmental management by N.k. Uberoi
- Suggested Reading
- Environmental Economics Journal by ICFAI

Background

During the last two-three decades, many experts have drawn attention to the close links between environment and development. The mad rush for industrial growth has, over the years led to environmental degradation on a large-scale accompanied by massive resource depletion. According to the *World Development Report 1992,* environmental problems can undermine the goals of development in two ways: "First environmental quality — water that is safe and plentiful and air that is healthy — is itself part of the improvement in welfare that development attempts to bring. If the benefits from rising incomes are offset by the costs imposed on health and the quality of life by pollution, this cannot be called development. Second, environmental damage can undermine future productivity. Soils that are degraded, aquifers that are depleted, and ecosystem.-; that are destroyed in the name of raising incomes today can jeopardize the prospects for earning income tomorrow. Therefore, **environmental protection should form a part of any comprehensive program of industrial development.** In this context, the economists now emphasize the concept of ***sustainable development.***

As per the definition coined by United Nations Division for Sustainable Development, it is "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

Another definition is "Sustainability' implies that the activities are ecologically sound, socially just, economically viable and humane, and that they will continue to be so for future generations."

Emphasis in both cases in on "Future Generations" which means that in our quest for development, we have to keep a perspective which goes beyond our lifetime and keep the future of human race as a whole in mind as well.

Sustainable development has three dimensions, economic, environmental, and social. If sustainability is to occur, it must meet needs of all these three dimensions. However, the most important factor in sustainability of development is Environmental. We are greatly dependent on natural resources for our sustenance. Starting from some thing as basic as air for breathing, to fossil fuels for energy generation, most of the natural resources can sustain only a limited rate of use and abuse. While some resources are completely non-renewable, others can renew only at limited rate. Sustainable

development is demand of the day. We need it not only for us but for our future generations.

Environmental issue can also be subdivided into following categories: -

1. Energy;
2. Forests;
3. Water:
4. Land/Industrial Development;
5. Air/Atmosphere pollution and Climate Change;
6. Loss of Bio-diversity
7. Atmospheric changes

1. **Energy:** Fossil fuels are examples of non-renewable resource. Forests can be renewed but at a very slow rate. As per the current estimates, world stock of fossil fuels will last 50 years at the most. And therefore, unless alternate sources of energy are discovered, we may land into energy crisis. Some signs of same are already visible. Therefore, development of a viable alternate to fossil fuels before fossil fuels get exhausted is the biggest challenge facing us today. France had turned to Nuclear Energy to meet its power generation needs. Its 80% of power generation is nuclear against world average of just 6%. India is attempting to expand its basket of nuclear energy. Otherwise, sun is the cheapest, most sustainable, most widely available and cleanest source of energy available. But the real problem is that we are yet to find an economical method of large scale storage of energy.

   Use of fossil fuels is having another impact on the environment, i.e., increasing level of oxides of carbon like CO_2 and Carbon Mono Oxide. While deteriorating the quality of air for breathing, it is also causing global warming. Global warming is leading to melting of glaciers in Arctic and Antarctic regions as also in higher mountains. Many low lying areas in the world are feared to be inundated/submerged/lost by increase in sea level.

2. **Forests:** Ruthless destruction of forests for wood, farming and industrial/economic development is damaging the ecology and leading to climatic changes like rainfall pattern, CO_2 level in air, global warming, Flash floods, etc. Unless efforts are taken to

ensure adequate forest cover, we may have irreversible catastrophic changes in climate.

3. **Water:** "Water water every where, not a drop to drink" is a situation that seafarers often face. But it may be a situation that cities like Mumbai and Chennai may have to face in the near future. Water resources are getting polluted at increasing rate. Mithi river in Mumbai, Yamuna in Delhi and Ganga in Kanpur have turned into stinking sewers. In addition, because of inadequate irrigation facilities; there is over dependence on ground water for irrigation. There are many countries like India, where there is over exploitation of ground water and thus water table is falling at the alarming rate. Warnings have already been issued by world bodies about impending water crisis in India, may be just two decades hence. We have to learn to use, conserve and enhance our fresh water resources. Ways to recharge the ground water are necessary lest we leave our future generation thirsty. River Interlinking Project is one such idea to reduce the dependence on ground water.

4. **Land:** Entire land mass available on earth has already been explored and there is no more possibility of any new land mass. World population which today stands at about 6 billion in growing and we need to provision space of living, water and food for them. We can not afford to waste any land mass due to any nuclear accidents like Chernobyl. Nor can we afford to lose existing land mass due to effects of global warming like melting of glaciers and polar ice cap.

   But more importantly, we can not even afford to waste any land as a result of careless Industrial Development. Liquid pollutants as a result of Industrial Development of a region are cause of concern. Certain industries discharge highly toxic chemical wastes and release them either to rivers or to open fields from where ground water gets polluted causing diseases in the local population. Careless discharge of cement dust from Cement Factories is affecting crop yield in the surrounding areas due to soil damage by cement dust. Smoke and Oxides of Carbon, like CO_2 and Carbon Mono Oxide are in any case almost inevitable products of any production process.

Fact of the matter is that there are very few production industries which do not have any adverse impact on environment. And the cost of reducing those impacts is fairly high and can make the entire process economically unviable. Rich countries are therefore shifting away from production to knowledge based industries. Production is getting increasing shifted to developing countries like India, China, Brazil, Mexico, etc. Developed countries have almost completely exited from most polluting of all, chemical industries.

Also, many consumer products, like computers, TV monitors, etc have highly toxic chemicals and metals like mercury, etc which are being discarded at increasing rate in every country. These discarded products find way to poor countries, like India and China, where poor resident process them to recover some value (recovery of metals). Remaining plastic and mercury etc gets dumped in their neighbourhood and pollutes the environment.

Even excessive use of chemical based fertilizers, like Urea, etc, have negative long term impacts on the ground and water.

5. **Air/Atmospheric Pollution/ Climatic Changes:** These are the issues which are interlinked. One leads to other. Emissions from fossil fuels cause air pollution. Increased concentration of air pollutants is partly responsible for Global warming along with CFC/Halon gases which have been identified as the major sources of climatic changes/Global warming. CFC gases have a tendency to deplete the Ozone layer, and thus increased level of UV rays causing global warming and skin cancer incidences. Halon gases are being replaced with other environment friendly gases. However, Kyoto treaty, which was supposed to limit CO_2 emission, is awaiting ratification by some major offenders since 1988.

6. **Loss of Bio-diversity:** "Biological diversity — a composite of genetic information, species, and ecosystems — provides material wealth in the form of food, fibre, medicine and inputs into industrial processes. It supplies the raw material that may assist human communities to adapt to future and unforeseen

environmental stresses. Furthermore, many people value sharing the earth with numerous other forms of life and want to bequeath this heritage to future generations." Loss of biodiversity jeopardizes all this. *World Development Report* presents some information on species that have already become extinct. This extinction has been caused principally by human activity. Tropical forests have the most intense concentrations of species and it is these forests that have shrunk at unprecedented rates. But other habitat — coastal and freshwater wetlands and coral reefs — are also suffering from serious degradation and loss. Studies conducted in mid-1980s have shown that 65 per cent of original wildlife habitat in tropical Africa and 68 per cent in tropical South and East Asian countries have been converted to other uses,

7. **Atmospheric Changes:** Indiscriminate industrialization, urbanization and environmental pollution are bringing about certain atmospheric changes which are likely to cause uncertain and irreversible hazards to future generations. Though complete knowledge regarding these hazards does not exist, the scientists have already drawn attention to two hazards — greenhouse warming and ozone depletion.

(A) Greenhouse Effect: The processes of industrialization and urbanization have led to the' emission of greenhouse gases into the atmosphere leading to rise in global temperature. The earth's temperature is driven by solar radiation. In the long-term, the energy absorbed from the sun must be balanced by outgoing radiation from the earth and the atmosphere. Part of this outgoing energy is absorbed and re-emitted by radiative atmospheric gases ("greenhouse gases"), thereby reducing net emission of energy to space. To maintain the global energy balances, both the atmosphere and the surface will warm until the outgoing energy equals the incoming energy. This is the 'greenhouse effect'. The main natural greenhouse gases (CHG) are water vapour, carbon dioxide, methane, nitrous oxide, and ozone. There are also purely manmade greenhouse gases, including many ozone-depleting substances such as CFCs. Although the likely effects of CHG concentrations in future are not yet known, the scientists expect 'heat trapping' resulting in 'global warming,' This could, in turn, result in drier soils in mid continental areas and substantial rise in

sea levels. Tropical storms could also become more frequent. According to Ramprasad Sengupta, "The economic effect of global warming is quite difficult to estimate in view of the vast uncertainties regarding the spatial distribution of the climatic variation. However, agriculture, coastal activities, aquaculture and forestry sectors would have some direct effect due to the links of these economic activities with the climate and ecosystem's functioning. The rise in sea level would also involve substantive economic loss due to submergence and destruction of life, land and other natural and man made assets."

(B)Ozone Depletion: Ozone depletion is mainly the result of increasing atmospheric concentrations of chlorine originating from CFCs. Although the industrial man-made chemicals CFCs are useful compounds they do not dissolve in rain nor react with other gases in the atmosphere. The CFG gas molecules therefore rise very high up in the atmosphere to cause substantive damage to deplete ozone layer, *An* important consequence of ozone depletion is an increase in solar ultraviolet (UV) radiation received at the earth's surface. Ozone depletion could result in an increase in skin cancers of about 25 per cent (300,000 additional cases a year) within several decades and an increase in eye damage from cataracts of about 7 per cent (1.7 million cases a year). Increased UV radiation could also have adverse impact on plant productivity, forestry and natural ecosystems, including disruption of marine or aquatic food chain. Thus, the CFCs indiscriminately used by certain industries are a serious threat to the life support system on earth.

Global Concerns

The rapid increase in production of pollutants, particularly by the industrial units had let to dramatic increase in the levels of concentration of a number of greenhouse and ozone depleting gases. The inevitable null has been global warming and damage to the ozone layer. The burning of fossil fuels by automobiles and industry are the major sources of greenhouse gases. Other sources include deforestation, animal husbandry, de-composition of waste, and coal mining. A number of gases, including CFCs, carbon dioxide, methane, sulphur (dioxide, and nitrous oxides, contribute significantly to the stock of greenhouse gases. However, carbon dioxide has the biggest impact, due to its relatively long lifetime in the atmosphere and the massive

5. Energy education to all classes of society through seminars, television, radio etc,.
6. Legislations and Regulations

What is an Energy Audit?

An energy audit is a preliminary activity towards instituting energy efficiency programs in an establishment. It consists of activities that seek to identify conservation opportunities preliminary to the development of an energy savings program. Energy today has become a key factor in deciding the product cost at micro level as well as in dictating the inflation and the debt burden at the macro level. Energy cost is a significant factor in economic activity.. The imperatives of an energy shortage situation calls for energy conservation measure, which essentially mean using less energy for the same level of activity. Energy Audit attempts to balance the total energy inputs with its use and serves to identify all the energy streams in the systems and quantifies energy usage's according to its discrete function. Energy Audit helps in energy cost optimization, pollution control, safety aspects and suggests the methods to improve the operating & maintenance practices of the system. It is instrumental in coping with the situation of variation in energy cost availability, reliability of energy supply, decision on appropriate energy mix, decision on using improved energy conservation equipment's, instrumentation's and technology.

Objectives of Energy Audit

The Energy Audit provides the vital information base for overall energy conservation program covering essentially energy utilization analysis and evaluation of energy conservation measures. It aims at:

- Identifying the quality and cost of various energy inputs.
- Assessing present pattern of energy consumption in different cost centers of operations.
- Relating energy inputs and production output.
- Identifying potential areas of thermal and electrical energy economy.
- Highlighting wastage's in major areas.
- Fixing of energy saving potential targets for individual cost centers.
- Implementation of measures for energy conservation & realization of savings.

Organizations that have adopted effective energy management strategies and built successful energy programs have had different results. Consider the following:

- Ford Motor Company has saved over $75 million through effective energy management.
- USAA Real Estate has realized a 5% annual energy savings and increased the asset value of a California building by $1.5 million due to energy efficiency upgrades.
- Eastman Kodak saved more than $8.6 million in operating costs in 2002 from its energy management efforts. Reduced energy-related carbon dioxide emissions equivalent to planting 216,000 acres of trees.
- Hines estimates the difference in operational costs between its energy efficient buildings and inefficient buildings at more than $13 million.
- Fairfax County Public Schools estimates an annual energy savings of $4.5 million from energy efficiency improvements.
- University of Virginia — Prevented over 5.5 million pounds of carbon dioxide, 30 million pounds of sulfur dioxide and 9.6 million pounds of nitrogen oxide from being released to the atmosphere.

The bottom line — good energy management is good business, and adopting an energy management strategy is a business decision you cannot afford to ignore.

For effective Energy Management

With the advent of new technologies for alternative or renewable energies and with gradual phasing out of the conventional energy resources, it has become necessary to take the following steps for effective energy management:

1. It is necessary to have a bank of accurate data on all the available energies that may affect a site in any location
2. Development of the above data into easily understood version for public to assist in the problem solving process
3. Provide easy access to the data to any group or persons;
4. Management training, organization and implementation

A family business is defined in terms of:

- Ownership control by members of a family, or consortium of families.
- Strategic influence of a family in the management of the firm.
- Concern for family relationships.
- The dream of continuity across generations.

At the most basic level, in these businesses, family maintains voting control over the strategic direction of the firm. Family may also be directly involved in day-to-day operations. Further, multiple generations of family members could be involved in such operations.

The popular perception holds that the family business is essentially an early point on a graph of corporate evolution. A successful family firm is expected to eventually grow beyond the ability of the family to manage and finance it. The owners would then decide to employ professional managers, and take the firm public to raise capital from the stock market. The modem economies are seen as dominated by large corporations listed on stock exchanges, and owned by an army of dispersed investors, either directly or indirectly through mutual and pension funds.

In reality, even in the US, nearly 60% of GNP is created by family businesses, and more than 80% of all enterprises are family-run. Family businesses account for 66% of gross domestic product and 75% of workforce in Germany, and 70% of the total sales and net profits of the biggest 250 private sector enterprises in India. On the whole, more than two-thirds of all businesses in the world are estimated to be family businesses.

There are several positives and negatives of family business firms. On the positive side, family firms tend to be more future-oriented rather than driven by quarterly results; and they tend to prefer organic growth based on internal resources as opposed to acquisitions-driven growth based on debt. Empirical studies in (he US suggest that family firms outperform non-family firms on a number of dimensions, including financial effectiveness, operational effectiveness (productivity as well as customer service), and social capital (concern for employees and communities). Using the Business Week 'CEO 1000', Mc Conaughy, et al., reported family firms to be operationally more

efficient, more valuable, having higher stock returns, using less debt, and paying out fewer dividends than their non-family counterparts.
On the negative side, family firms put a low priority on growth goals, avoid growth strategies, have lower growth rates than start-ups or buyouts, and neglect strategic and succession planning. Impediments to growth in family firms include limited financial resources (on account of a reluctance to share ownership, and a desire to grow via internally generated funds), limited marketing resources (reflected in their lower market share, and less participation in global markets), limited governance resources (few professional managers, and goal conflict between active and non-active family members), and focus on structurally unattractive industries (with low capital intensity, and high barriers to entry).

Among family firms, less than 30% survive into the second generation, barely 10% make it to the third, and only about 4% to the fourth. Based on his research on the development of family business in the US, John Ward (1987) concluded, "The first generation builds the business, the second generation 'milks' or 'harvests' it, and the third generation must either auction what is left to the highest bidder, or start all over again. Families run business houses, by their very nature, are concerned about stability, reliability, consistency, enduring values, traditions, love and caring, that support individual development, and family harmony. They are about legacy and continuity, not change.

Family businesses tend to put an emphasis on the succession processes to ensure a sustainable competitive advantage. The founders or the current generation play an important role in transferring valuable family experiences to the successors; however, the successors also have a responsibility to develop new experiences and legacies in the family business. The average tenure of the CEO from each generation in family businesses in the US is about 20 years, as opposed to only 3 years for a CEO in non-family businesses. The family business leaders carry significant amount of experiential knowledge, relationships, passion, and innovative spirit. The performance of next generation is critically influenced by the effectiveness with which these intangibles are transferred across generations.

In a family-driven enterprise, nepotism and favoritism are prone to dominate. The effective family businesses seek to minimize the negative effects of business-driven as well as family-driven culture, and maximize the positive synergies. In a family business characterized by synergistic family

and business dimensions, a more collaborative and democratic approach tends to be prominent, generating a positive psychology that attends to the positive effects, such as vitality, meaningfulness, exhilaration, and high-quality relationships. On the whole, based on the family systems theory, three types of family businesses may be identified:

Family-driven: These family businesses prefer to employ mainly family members or family-like members, especially in managerial or senior management positions. Family members maintain a high level of secrecy about the business, and use the business as part of their lifestyle. The members of same generation may he paid equally, and all members may receive significant perks from their involvement in the business. On the whole, there is an explicit commitment to the continuity of the family business. Further, family involvement tends to take all the following forms:

- Family power: based on ownership, management and/or governance.
- Family experience: based on broad and deep dedication of family members to the business. For instance, several family members from several generations may be involved in the business.
- Family culture: based on the family's commitment to the business, and to maintaining family-oriented values.

Business-driven: These family businesses prefer to employ based on qualifications; they review the performance of, and compensate both family and non-family members using similar criteria. There is no specific commitment to inter-generational continuity of the family business; the continuity option is evaluated on the basis of the ability and willingness of the next generation to develop and grow business.

Family and business driven: These family businesses prefer to employ family members; however, these family members are evaluated using criteria similar to those used for the non-family members. Further, family members are often encouraged to work outside the family business to gain alternative experience, and to test their commitment to the family business. Finally, the role of the different family members in the business varies, with some involved actively as employees, and others playing a more passive role as responsible shareholders. On the whole, there is an implicit commitment to the continuity of the family business. The underlying vision is that the integration of family and business imperatives would cultivate (a) a healthy family, (b) a healthy business, and (c) cross-generational continuity.

Organizational Linkages for Sustainability

To sustain the continuity in the family involvement across generations, and the continuity in the competitive advantage and its augmentation, five kinds of organizational linkages need to be created in a family business:

1. **Backward Linkages:** These include good forums for rediscovering and rejuvenating family legacy, bridging psychological distance between family members and family branches, keeping a balance of power among them, and offering full opportunities for participating in furthering of the family legacy. The significance and relevance of family culture to the family business must be clearly established, renewed, and reaffirmed through regular and ongoing formal and informal forums. Family culture includes an involvement-oriented commitment to not just customers and shareholders, or employees and suppliers, but also to the community in which family business operates. The concept of commitment to these various entities must be clarified by defining the scope and nature of one's involvement. Defining the 'first steps' for embarking upon any change in the nature and scope of involvement is critical, and should be done through open forums to gain support of all the members.

2. **Descending Linkages:** These include good relationships with prior generation, advisors, and board of directors—internal as well as external—for transfer of cultural, experiential, and relational systems. It is a good idea to establish Family Council, which serves as a Board of Directors, and aids in the transfer of knowledge, as well as resolution of any disputes or problems. In addition, a Family Assembly may also be formed, which would include all members of the family, if the members have quite a large number.

3. **Forward Linkages:** These include good relationships with other members of successor team for developing a cohesive, interdependent cultural, experiential, and relational system. The high-performing family businesses are characterized by a high degree of interdependence, which allows an independent and non-intrusive space to each member. There is a strong interdependence

between the past and the future of a family business, as well as between its different functional activities, its different business groups, and its different people. To manage this interdependence, family businesses excel in the skill of accommodation—they are quick to identify and achieve alignment of the goals of different members, develop and sustain differentiated role spaces consistent with the independent interests of each member, establish procedures that prevent erosion of relationships, and offer non-threatening forums where members can have a dialogue about their emotions and unfilled desires on an ongoing basis.

4. **Horizontal Linkages:** These include good relationships with non-family managers and employees, suppliers, and customers. The non-family employees bring in complementary skill and experiential and relational capital to the family business, and are essential to the health and sustainability of the family business. If a need arises, they could act as bridging CEOs of the family business, and as mentors of the next generation; especially when the next generation is unwilling or unable to learn from the current generation. They can also help with a new vision, or with new solutions when the family business is in need for a drastic redirection and change. The non-family employees also provide a benchmark of performance against which to evaluate the performance of the family members. If their role and importance is not duly recognized and rewarded, the non-family employees may lack commitment to business, regard the systems as unfair, and perceive the business to be devoid of opportunities for personal growth. For instance, non-family employees may fear losing out to less qualified family members in being appointed to senior positions, not being paid as much in the family business that is not growth-oriented, and not being offered equity participation. Therefore, it is critical 10 involve non-family employees also fully in planning and setting direction, to establish transparent performance evaluation systems, to benchmark compensation and benefits package against comparable family and non-family businesses, and to involve them in succession plans. Joint involvement of the family and non-family members in strategy, plans, and business decisions helps promote mutual understanding, respect, trust, and loyalty, and ensures that the family culture permeates and benefits the whole business. Further, non-family

employees should also be given charge of important and significant projects, based on their interests and abilities.

5. **Ascending Linkages:** These include cultivating a sense of stewardship and responsibility among the heirs dedicated to take the business to the next level, by allowing them to gain varied experiences. Many family business owners are prone to delay succession planning because of a variety of factors, such as lack of time, fear of loss of control of business, and fear of family conflict. However, by delaying succession planning, such factors become more debilitating. Then, when the family business owners quit, a vacuum is left in the family business, which can threaten its sustain ability. It is important for the family business owners to clearly plan (he succession, and recognize the interests and capacities of different members. There may he a need to restructure the organization's capital, 10 allow for both voting and non-voting shares for the successors who are keen on an active management-oriented involvement in the family business vs. those who are inclined towards a more passive governance-only involvement. Further, the rules for defining the roles of the two types of successors also need to be discussed and clarified. Moreover, this is the time when the family business owners can make a decision on whether and how to reward some of the loyal employees, who may be almost like family members. The business owners could develop employee stock ownership plans, effective immediately or after the succession, with clear rules on whether those stocks could be sold to the outsiders, or passed to the next generation of the employees. The business owners may take the help of their board, comprising senior family members as well as the outsiders who have already dealt with the succession issues, for this purpose.

Changing Face of Family- owned Business in India

In the late 19th and the early 20th century, the family-owned businesses competed with the British-owned companies. After India gained independence in 1947, under the pseudo socialistic regime, the spirit of entrepreneurship among the family-owned business companies in India was almost killed. The external debt crisis in 1991 led to the opening up of the Indian economy. The family-owned business companies by then had become used to the protectionist environment that had been created over the years. It

took them a few years to figure out what was happening. After that, some of the better-managed family-owned companies responded with a bang. Now, in the new millennium, the business environment is changing very fast, and if the Indian family-owned business enterprises want to survive, they need to change with it.

From Owner Managers to Professional Managers

Family-owned businesses in India have had an owner manager running the business over the years. During the days of the license raj, the skills needed for carrying out a business successfully had more to do with lobbying and liasioning for licenses, permits, financing and concessions, and far less to do with strategy and operations. The only functions reserved for managers were those of following instructions.

Since 1991, these skills are no longer as important as they used to be. Managing a company needs specialized skills. The companies need professional managers. Management is, thus, for professionals, scion or not. Family, being the high stake investor, should exert pressure on the professional management without involving itself in the day-to-day operations.

In September, 1997, Vikram Lal, set a precedent at the Eicher group by renouncing all executive posts at the group despite holding 60.53 percent of equity, and only heading a supervisory board that will guide. Sunil Bharti has made it very clear that his children won't succeed him at Bharti. And if want to join the company, they would have to get a professional degree and prove themselves first at another company.

Moving towards Core Competence

In the 1990s, some of the family-owned businesses in India have tried to concentrate on their core areas, while trying to get out of unrelated areas and also trying to enter new technology areas. Reliance has successfully backward integrated in way to glory, and has recently entered the telecom sector through Reliance Infocom. The Adirya Birla group is trying to concentrate on a few core areas. The Parvinder Singh group is concentrating just on the health sector through Ranbaxy and Fortis health care. The Mittal group is very bullish about the telecom sector and plans to concentrate its energies on the same. This is an emerging trend and the family-owned

companies seem to have realized that focus is required, if they want to survive and do good business.

Entry into Newer Sunshine Areas

More and more family-owned companies are entering the new business areas of information technology, biotechnology, entertainment, telecom, oil exploration etc. Three of the four biggest Information Technology companies in India, TCS, Wipro and Satyam, happen to be considerably family-owned. India's pioneer company in bio Technology, Biocon, is also family-owned. Ranbaxy, the biggest pharma major, though very professionally run, is family-owned. Zee Television, one of the biggest entertainment companies in India, is owned by Subhash Chandra Goyal.

From Followership to Leadership

The Tatas were one group which hired people who had the ability to lead people. Nani Palkhiwala, Russy Modi, Sumant Mulgaonkar, Darbari Seth, Freddie S Mehta, to name a few. This trend is catching on with more and more family-owned companies in India. Wipro is another company, which hires who can inspire others. A large bunch of Indian family-owned companies would still like to hire yes-men, but in the future, with changes happening so fast, companies need leaders of men and not yes-men.

Corporate Governance, Fad or Fiction

Corporate governance in India has basically been influenced by three reports: a) Report oil the task force set up by CII in 1997; b) The Report of Kumara Manglam Birla Committee which was sponsoted by the SEBI in 1999; c) Report of RBI Advisory Group published in March 2001.

Boards of most of the family-owned business enterprises in India, over the years, had only a single point agenda i.e. the protection of the controlling interest of the owners. But, now that SEBI has made it mandatory for listed companies to follow corporate governance, the family-owned enterprises have had to appoint independent directors on their boards. A few family-owned enterprises that have been doing this in the right earnest are Dr Reddy's Laboratories, Godrej Consumer Products, Muruguppa Group, Wipro etc.

Breaking the Glass Ceiling

Since the beginning of family-owned business enterprise, the male members of the family-owned business enterprise have been considered the hands on custodians of its ambitions. In recent times, a few women have also taken charge of the family-owned business organization. Shobhna Bhartia, the daughter of KK Birla, is the Group President of the English daily, *The Hindustan Times.*

Corporate Social Responsibility

Corporate Social Responsibility is the latest buzzword for the family-owned business enterprises. Many family-owned business enterprises, over the years maintained a certain level of commitment to social and charitable cause. The main expenditure of the Tata group is on rural development, which includes community health, women and children. The Aditya Birla group, with a spending of Rs 57 cr.

Acquisitions/Takeovers

Most of the first generation Indian entrepreneurs were greenfield men, preferring to build their own companies rather than buy what others had erected. Over the second and the third generations, that attitude seems to have changed. Family-owned business enterprises in India have been acquiring companies during the recent few years. Few of the examples are Wipro acquiring Spectramind, JK Singhania group acquiring Color Plus, AV Birla group company Indian Rayon in the last few years has acquired a host of brands, Reliance recently acquired IPCL and BSES, while Aditya Birla group took over the cement division of L&T. This trend will catch on in the near future with family-owned business enterprises trying to acquire companies to consolidate their position in their areas of strength and also to achieve inorganic growth in newer areas.

From Centralization to Management by Consensus

Most of the family-owned businesses in India have been highly promoter-driven. So, over the years, this has led to a lot of centralization, with a single individual making the majority of decisions in an organization. Over the

years, business become more specialized and decisions now need to be taken by profession who are closest to the situation, rather than the man at the top.

Caste No Bar

Most of family enterprises had members of their caste and kin in sensitive positions. . Birla's all trusted lieutenants were Marwaris. Dhirubhai Ambani also started his relatives and Gujratis being at the helm of affairs at Reliance. With liberalization in the 1990s, the situation has changed, to a certain extent. Competition becomes fierce and survival is at stake. Business families increasingly have looking outside their caste for talent. In functions like marketing and product development, professionals are being employed. Family-owned business enterprise seem to have woken up to the fact that they need to hire the best person for the job, irrespective of which caste he/she comes from.

Resource Management

Resource management is the efficient and effective deployment of an organization's resources when they are needed. Such resources may include financial resources, inventory, human skills, production resources, or information technology (IT).

In any economy and every industry, companies compete for customers and resources. Competition means there will be winners and losers. Winners of economic competition create products and services that customers value and in doing so they create job and opportunities for employees and investors. Cost management information help the winners to increase customer value by helping to manage quality and reduce cost by identifying opportunities to eliminate wasteful processes and practices. For example, cost management information may indicate that an organization could reduce cost by using services by other who specializes in providing them. This is the main reason why in present scenario Business Process Outsourcing provides a rich new source of competitive advantage.

Business process outsourcing (BPO) is defined simply as the movement of business processes from inside the organization to external service providers. With the global telecommunications infrastructure now well-established and consistently reliable, BPO initiatives often include shifting work to international providers, five BPO international hot spots have emerged around the globe, although firms from many other countries are specializing in various business processes and exporting services;

1. *India.* Engineering and Technical
2. *China.* Manufacturing and Technical
3. *Mexico.* Manufacturing
4. *United States.* Analysis and Creative
5. *Philippines,* Administrative

Each of these countries has complex economies that span the range of business activity, but from a BPO perspective they have comparative advantages in the specific functions cited. BPO is considered as a means of eliminating business processes that are not part of the core competence of the organizations. Back-office functions such as payroll and benefits administration, customer service, call center, and technical support are just a few of the processes that organizations of all sizes have been able to

outsource to others who specialize in those areas. Removing back-offi functions from their internal operations enables organizations to redu payroll and other overhead costs. In the next 15 years, Forrester Researc predicts that 3.3 million service jobs will move to countries such as Indi Russia, China, and the Philippines. Earlier BPO adapters among fortune 10 companies include IBM, American Express and General Electric.

HR (Human Resource) Management - The science of allocating humai resources among various projects or business units, maximizing the utilization of available personnel resources to achieve business goals: anc performing the activities that are necessary in the maintenance of that workforce through identification of staffing requirements, planning and oversight of payroll and benefits, education and professional development, and administering their work-life needs. The efficient and effective deployment of an organization's personnel resources where and when they are needed, and in possession of the tools, training and skills required by the work.

Knowledge Management (KM) - Knowledge is full utilization of information and data, coupled with the potential of peoples' skills, competencies, ideas, intuitions, commitments and motivations. In today's economy, knowledge is people, money, learning, flexibility, power and competitive advantage. Knowledge is more relevant to sustain Business than Capital, labor or land. Nevertheless, it remains the most neglected asset. For Knowledge to be of value it must be focused, current, tested and shared.

Knowledge management often encompasses identifying and mapping intellectual assets within the organization, generating new knowledge for competitive advantage within the organization, making vast amounts of corporate information accessible, sharing of best practices and technology that enables all of the above — including groupware and intranets.

Knowledge management is concerned with organizing knowledge repositories (data bases etc.) so as to allow for easy retrieval and exchange of the information stored therein.