Lecture Notes

On

Business Environment

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Dr.Indal Kumar

Assistant Professor

Department of Management

NEHRU GRAM BHARATI DEEMED TO BE UNIVERSITY, PRAYAGRAJ

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UNIT-1

Business Meaning, Definition, Nature & Scope

The word business simply means **"The state of being busy"**. It confines its study only to those human activities in relation to exchange of goods and services for money.

The purpose of exchange of goods and services is to satisfy human wants. A number of authors and authorities have attempted to define the term business in so many ways. However, all definitions focus their attention on one particular aspect i.e., "satisfaction of human wants".

The origin of business can be traced back to the days of the origin of the world. In those days, the cave man produced goods, which he wanted. Later, he realized that he could not produce each and everything needed by him. He thought that he should specialize only in the work which was best suited to him and should utilize the service of others producing more commodities than those required for his own consumption. Then he exchanged the excess of his commodity with other's commodities, which he required for his use. This system known as "charter system" was the origin of business.

With the passage of time, human wants became more and more. Now the consumer wants and expects numerous articles in order to lead a comfortable life. The commodities, which were all considered as luxurious yesterday, have become the necessaries of today.

Nature of Business

The important characteristics of business are given below:

Sale, Transfer or Exchange of Goods and Services for Value

Business is concerned with sale, transfer / sale of goods and services for a value. Production or purchase of goods or services for personal consumption is obviously outside the scope of business because, there is no sale or transfer for value. Therefore, production or purchase for one's own consumption is not a business activity. On the other hand, if he produces for others it is considered as a business activity.

Continuity of Dealings

The exchange of goods and services should be undertaken continuously. A casual transaction does not constitute business. If a person sells his Television set and gains some profit thereon, it does not constitute business. But if he regularly deals with T.V. sets, then such an act is treated as business.

Profit Motive

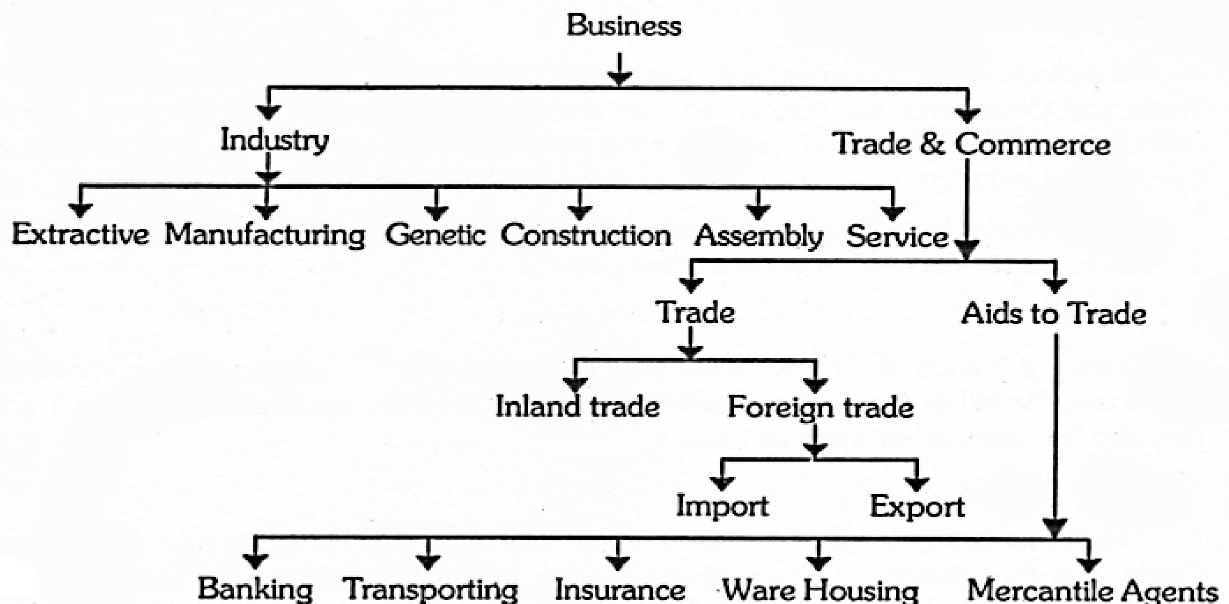
Profit is the ultimate aim of any business. It may have other motives also. But if this motive is absent, it is not a business activity at all.

Uncertainty and Risks

Profit for any business depends not only on the factors over which the businessman has control but also on factors over which he has no control or less control. Thus, all activities of business carry some element of risk and uncertainty in respect of business success.

Scope of Business

The Scope of "**Business**" is wider than that of the terms "**Trade**" and "**Commerce**". The terms trade and commerce are often used synonymously. This usage is not correct.



Trade is one of the branches of commerce. It is concerned with exchange of goods and services. It performs the function of acting as an intermediary and thereby it transfers goods from the producer to the consumer. On the

other hand, commerce is a wider term. It includes "Trade" as well as, Aids to trade i.e. the various activities which facilitate trade.

The term business may be classified into Industry and Trade and commerce. Industry is referred to as production of goods and materials while Trade and commerce refers to distribution of goods and materials manufactured. The image below gives a clear-cut picture of the nature and scope of business.

Objectives of Business: Economic & Social

Objectives represent the purpose for which an organization has been started. Objectives guide and govern the actions and behaviour of businessmen. According to William F. Glueck, "Objectives are those ends which the organization seeks to achieve through its existence and operations."

Another term for objectives is goals. Logically, objectives ought to specify ends or results sought that are derived from and congruent with the mission the organization has set itself Attempts to set objectives should always be guided by references to the mission they are meant to fulfill.

Business objectives are something which a business organization wants to achieve or accomplish over a specified period of time. These may be to earn profit for its growth and development, to provide quality goods to its customers, to protect the environment, etc.

Classification of Objectives of Business

It is generally believed that a business has a single objective. That is, to make profit. But it cannot be the only objective of business. While pursuing the objective of earning profit, business units do keep the interest of their owners in view. However, any business unit cannot ignore the interests of its employees, customers, the community, as well as the interests of society as a whole.

For instance, no business can prosper in the long run unless fair wages are paid to the employees and customer satisfaction is given due importance. Again a business unit can prosper only if it enjoys the support and goodwill of people in general. Business objectives also need to be aimed at contributing to national goals and aspirations as well as towards international well-being. Thus, the objectives of business may be classified as;

Economic Objectives
Social Objectives
Human Objectives
National Objectives
Global Objectives

Now, we shall discuss all these objectives in detail.

Economic Objectives

Economic objectives of business refer to the objective of earning profit and also other objectives that are necessary to be pursued to achieve the profit objective, which includes, creation of customers, regular innovations and best possible use of available resources.

(a) Profit Earning

Profit is the lifeblood of business, without which no business can survive in a competitive market. In fact profit making is the primary objective for which a business unit is brought into existence. Profits must be earned to ensure the survival of business, its growth and expansion over time.

Profits help businessmen not only to earn their living but also to expand their business activities by reinvesting a part of the profits. In order to achieve this primary objective, certain other objectives are also necessary to be pursued by business, which are as follows:

(b) Creation of customers

A business unit cannot survive unless there are customers to buy the products and services. Again a businessman can earn profits only when he/she provides quality goods and services at a reasonable price. For this it needs to attract more customers for its existing as well as new products. This is achieved with the help of various marketing activities.

(c) Regular innovations

Innovation means changes, which bring about improvement in products, process of production and distribution of goods. Business units, through innovation, are able to reduce cost by adopting better methods of production and also increase their sales by attracting more customers because of improved products.

Reduction in cost and increase in sales gives more profit to the businessmen. Use of power looms in place of handlooms, use of tractors in place of hand implements in farms etc. are all the results of innovation.

(d) Best possible use of resources

As we all know, to run any business we must have sufficient capital or funds. The amount of capital may be used to buy machinery, raw materials, employ men and have cash to meet day-to-day expenses. Thus, business activities require various resources like men, materials, money and machines.

The availability of these resources is usually limited. Thus, every business should try to make the best possible use of these resources. Employing efficient workers. Making full use of machines and minimizing wastage of raw materials, can achieve this objective.

Social Objectives

Social objective are those objectives of business, which are desired to be achieved for the benefit of the society. Since business operates in a society by utilizing its scarce resources, the society expects something in return for its welfare. No activity of the business should be aimed at giving any kind of trouble to the society.

If business activities lead to socially harmful effects, there is bound to be public reaction against the business sooner or later. Social objectives of business include production and supply of quality goods and services, adoption of fair trade practices and contribution to the general welfare of society and provision of welfare amenities.

(a) Production and Supply of Quality Goods and Services

Since the business utilizes the various resources of the society, the society expects to get quality goods and services from the business he objective of business should be to produce better quality goods and supply them at the right time and at a right price It is not desirable on the part of the businessman to supply adulterated or inferior goods which cause injuries to the customers.

They should charge the price according to the quality of e goods and services provided to the society. Again, the customers also expect timely supply of all their requirements. So it is important for every business to supply those goods and services on a regular basis.

(b) Adoption of Fair Trade Practices

In every society, activities such as hoarding, black- marketing and over-charging are considered undesirable. Besides, misleading advertisements often give a false impression about the quality of products. Such advertisements deceive the customers and the businessmen use them for the sake of making large profits.

This is an unfair trade practice. The business unit must not create artificial scarcity of essential goods or raise prices for the sake of earning more profits. All these activities earn a bad name and sometimes make the businessmen liable for penalty and even imprisonment under the law. Therefore, the objective of business should be to adopt fair trade practices for the welfare of the consumers as well as the society.

(c) Contribution to the General Welfare of the Society

Business units should work for the general welfare and upliftment of the society. This is possible through running of schools and colleges better education opening of vocational training centres to train the people to earn their livelihood, establishing hospitals for medical facilities and providing recreational facilities for the general public like parks, sports complexes etc.

Human Objectives

Human objectives refer to the objectives aimed at the well-being as well as fulfillment of expectations of employees as also of people who are disabled, handicapped and deprived of proper education and training. The human objectives of business may thus include economic well-being of the employees, social and psychological satisfaction of employees and development of human resources.

(a) Economic Well-being of the Employees

In business employees must be provided with tan remuneration and incentive for performance benefits of provident fund, pension and other amenities like medical facilities, housing facilities etc. By this they feel more satisfied at work and contribute more for the business.

(b) Social and Psychological Satisfaction of Employees

It is the duty of business units to provide social and psychological satisfaction to their employees. This is possible by making the job interesting and challenging, putting the right person in the right job and reducing the monotony of work Opportunities for promotion and advancement in career should also be provided to the employees.

Further, grievances of employees should be given prompt attention and their suggestions should be considered seriously when decisions are made. If employees are happy and satisfied they can put then best efforts in work.

(c) Development of Human Resources

Employees as human beings always want to grow. Their growth requires proper training as well as development. Business can prosper if the people employed can improve their skills and develop their abilities and competencies in course of time. Thus, it is important that business should arrange training and development programmes for its employees.

(d) Well-being of Socially and Economically Backward People

Business units being inseparable parts of society should help backward classes and also people those are physically and mentally challenged. This can be done in many ways. For instance, vocational training programme may be arranged to improve the earning capacity of backward people in the community. While recruiting its staff, business should give preference to physically and mentally challenged persons. Business units can also help and encourage meritorious students by awarding scholarships for higher studies.

National Objectives

Being an important part of the country, every business must have the objective of fulfilling national goals and aspirations. The goal of the country may be to provide employment opportunity to its citizen, earn revenue for its exchequer, become self-sufficient in production of goods and services, promote social justice, etc. Business

activities should be conducted keeping these goals of the country in mind, which may be called national objectives of business.
The following are the national objectives of business.

(a) Creation of Employment

One of the important national objectives of business is to create opportunities for gainful employment of people. This can be achieved by establishing new business units, expanding markets, widening distribution channels, etc.

(b) Promotion of Social Justice

As a responsible citizen, a businessman is expected to provide equal opportunities to all persons with whom he/she deals. He/ She is also expected to provide equal opportunities to all the employees to work and progress. Towards this objectives special attention must be paid to weaker and backward sections of the society.

(c) Production According to National Priority

Business units should produce and supply goods in accordance with the priorities laid down in the plans and policies of the government. One of the national objectives of business in our country should be to increase the production and supply of essential goods at reasonable prices.

(d) Contribute to the Revenue of the Country

The business owners should pay their taxes and dues honestly and regularly. This will increase the revenue of the government, which can be used for the development of the nation.

(e) Self-sufficiency and Export Promotion

To help the country to become self-reliant, business units have the added responsibility of restricting import of goods. Besides, every business units should aim at increasing exports and adding to the foreign exchange reserves of the country.

Global Objectives

Previously India had very restricted business relationship with other nations. There was a very rigid policy for import and export of goods and services. But, now-a-days due to liberal economic and export-import policy, restrictions on foreign investments have been largely abolished and duties on imported goods have been substantially reduced.
This change has brought about increase in competition in the market. Today because of globalization the entire world has become a big market. Goods produced in one country are readily available in other countries. So, to face the competition in the global market every business has certain objectives in mind, which may be called the global objectives. Let us learn about them.

(a) Raise General Standard of Living

Growth of business activities across national borders makes quality goods available at reasonable prices all over the world. The people of one country get to use similar types of goods that people in other countries are using. This improves the standard of living of people.

(b) Reduce Disparities among Nations

Business should help to reduce disparities among the rich and poor nations of the world by expanding its operation. By way of capital investment in developing as well as underdeveloped countries it can foster their industrial and economic growth.

(c) Make Available Globally Competitive Goods and Services

Business should produce goods and services which are globally competitive and have huge demand in foreign markets. This will improve the image of the exporting country and also earn more foreign exchange for the country.

Types of Business Organizations

One of the first decisions that you will have to make as a business owner is how the business should be structured. All businesses must adopt some legal configuration that defines the rights and liabilities of participants in the business's ownership, control, personal liability, life span, and financial structure. This decision will have long-term implications, so you may want to consult with an accountant and attorney to help you select the form of ownership that is right for you. In making a choice, you will want to take into account the following:
Your vision regarding the size and nature of your business.
The level of control you wish to have.
The level of "structure" you are willing to deal with.
The business's vulnerability to lawsuits.
Tax implications of the different organizational structures.
Expected profit (or loss) of the business.
Whether or not you need to re-invest earnings into the business.
Your need for access to cash out of the business for yourself.

An overview of the four basic legal forms of organization: Sole Proprietorship; Partnerships; Corporations and Limited Liability Company follows.

Sole Proprietorship

The vast majority of small businesses start out as sole proprietorships. These firms are owned by one person, usually the individual who has day-to-day responsibility for running the business. Sole proprietorships own all the assets of the business and the profits generated by it. They also assume complete responsibility for any of its liabilities or debts. In the eyes of the law and the public, you are one in the same with the business.

Advantages of a Sole Proprietorship

Easiest and least expensive form of ownership to organize.

Sole proprietors are in complete control, and within the parameters of the law, may make decisions as they see fit.

Profits from the business flow-through directly to the owner's personal tax return.

The business is easy to dissolve, if desired.

Disadvantages of a Sole Proprietorship

Sole proprietors have unlimited liability and are legally responsible for all debts against the business. Their business and personal assets are at risk.

May be at a disadvantage in raising funds and are often limited to using funds from personal savings or consumer loans.

May have a hard time attracting high-caliber employees, or those that are motivated by the opportunity to own a part of the business.

Some employee benefits such as owner's medical insurance premiums are not directly deductible from business income (only partially as an adjustment to income).

Partnerships

In a Partnership, two or more people share ownership of a single business. Like proprietorships, the law does not distinguish between the business and its owners. The Partners should have a legal agreement that sets forth how decisions will be made, profits will be shared, disputes will be resolved, how future partners will be admitted to the partnership, how partners can be bought out, or what steps will be taken to dissolve the partnership when needed; Yes, its hard to think about a "break-up" when the business is just getting started, but many partnerships split up at crisis times and unless there is a defined process, there will be even greater problems. They also must decide up front how much time and capital each will contribute, etc.

Advantages of a Partnership

Partnerships are relatively easy to establish; however time should be invested in developing the partnership agreement.

With more than one owner, the ability to raise funds may be increased.

The profits from the business flow directly through to the partners' personal tax return.

Prospective employees may be attracted to the business if given the incentive to become a partner.

The business usually will benefit from partners who have complementary skills.

Disadvantages of a Partnership

Partners are jointly and individually liable for the actions of the other partners.

Profits must be shared with others.

Since decisions are shared, disagreements can occur.

Some employee benefits are not deductible from business income on tax returns.

The partnership may have a limited life; it may end upon the withdrawal or death of a partner.

Types of Partnerships that should be considered:

(a) General Partnership

Partners divide responsibility for management and liability, as well as the shares of profit or loss according to their internal agreement. Equal shares are assumed unless there is a written agreement that states differently.

(B) Limited Partnership and Partnership with limited liability

"Limited" means that most of the partners have limited liability (to the extent of their investment) as well as limited input regarding management decision, which generally encourages investors for short term projects, or for investing in capital assets. This form of ownership is not often used for operating retail or service businesses. Forming a limited partnership is more complex and formal than that of a general partnership.

(c) Joint Venture

Acts like a general partnership, but is clearly for a limited period of time or a single project. If the partners in a joint venture repeat the activity, they will be recognized as an ongoing partnership and will have to file as such, and distribute accumulated partnership assets upon dissolution of the entity.

Corporations

A Corporation, chartered by the state in which it is headquartered, is considered by law to be a unique entity, separate and apart from those who own it. A Corporation can be taxed; it can be sued; it can enter into

contractual agreements. The owners of a corporation are its shareholders. The shareholders elect a board of directors to oversee the major policies and decisions. The corporation has a life of its own and does not dissolve when ownership changes.

Advantages of a Corporation

Shareholders have limited liability for the corporation's debts or judgments against the corporation.

Generally, shareholders can only be held accountable for their investment in stock of the company. (Note however, that officers can be held personally liable for their actions, such as the failure to withhold and pay employment taxes.

Corporations can raise additional funds through the sale of stock.

A Corporation may deduct the cost of benefits it provides to officers and employees.

Can elect S Corporation status if certain requirements are met. This election enables company to be taxed similar to a partnership.

Disadvantages of a Corporation

The process of incorporation requires more time and money than other forms of organization.

Corporations are monitored by federal, state and some local agencies, and as a result may have more paperwork to comply with regulations.

Incorporating may result in higher overall taxes. Dividends paid to shareholders are not deductible from business income; thus this income can be taxed twice.

Subchapter S Corporation

A tax election only; this election enables the shareholder to treat the earnings and profits as distributions, and have them pass through directly to their personal tax return. The catch here is that the shareholder, if working for the company, and if there is a profit, must pay his/herself wages, and it must meet standards of "reasonable compensation". This can vary by geographical region as well as occupation, but the basic rule is to pay yourself what you would have to pay someone to do your job, as long as there is enough profit. If you do not do this, the IRS can reclassify all of the earnings and profit as wages, and you will be liable for all of the payroll taxes on the total amount.

Limited Liability Company (LLC)

The LLC is a relatively new type of hybrid business structure that is now permissible in most states. It is designed to provide limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership. Formation is more complex and formal than that of a general partnership.

The owners are members, and the duration of the LLC is usually determined when the organization papers are filed. The time limit can be continued if desired by a vote of the members at the time of expiration. LLC's must not have more than two of the four characteristics that define corporations: Limited liability to the extent of assets; continuity of life; centralization of management; and free transferability of ownership interests.

Federal Tax Forms for LLC

Taxed as a partnership in most cases; corporation forms must be used if there are more than 2 of the 4 corporate characteristics, as described above.

Business Environment: Meaning, Characteristics, Scope and Significance

"Business Environment encompasses the -climate' or set of conditions, economic, social, political or institutional in which business operations are Conducted."—Arthur M. Weimer

"Environment contains the external factors that create opportunities and threats to the business. This includes socio-economic conditions, technology and political conditions." – **William Gluck and Jauch**

''Business environment is the aggregate of all conditions, events and influences that surround and affect it."—**Keith Davis**

"The environment of business consists of all those external things to which it is exposed and by which it may be influenced directly or indirectly". —**Reinecke and Schoell**.

"The total of all things external to firms and industries that affect the function of the organization is called business environment."—**Wheeler**

"Civilizations require challenges to survive. Thus environment also contains hostilities and dangers that may be overcome by individuals and organizations."—**Arnold J. Toynbee**

On the basis of the above definitions, it is very clear that the business environment is a mixture of complex, dynamic and uncontrollable external factors within which a business is to be operated.

Characteristics of Business Environment

The nature of Business Environment is simply and better explained by the following approaches:

(i) System Approach

In original, business is a system by which it produces goods and services for the satisfaction of wants, by using several inputs, such as, raw material, capital, labour etc. from the environment.

(ii) Social Responsibility Approach

In this approach business should fulfill its responsibility towards several categories of the society such as consumers, stockholders, employees, government etc.

(iii) Creative Approach
As per this approach, business gives shape to the environment by facing the challenges and availing the opportunities in time. The business brings about changes in the society by giving attention to the needs of the people.
Significance of Business Environment
Business Environment refers to the "Sum total of conditions which surround man at a given point in space and time. In the past, the environment of man consisted of only the physical aspects of the planet Earth (air, water and land) and the biotic communities. But in due course of time and advancement of society, man extended his environment through his social, economic and political function."
In a globalised economy, the business environment plays an important role in almost all business enterprises. The significance of business environment is explained with the help of the following points:
(i) Help to understand internal Environment
It is very much important for business enterprise to understand its internal environment, such as business policy, organization structure etc. In such case an effective management information system will help to predict the business environmental changes.
(ii) Help to Understand Economic System
The different kinds of economic systems influence the business in different ways. It is essential for a businessman and business firm to know about the role of capitalists, socialist and mixed economy.
(iii) Help to Understand Economic Policy
Economic policy has its own importance in business environment and it has an important place in business. The business environment helps to understand government policies such as, export-import policy, price policy; monetary policy, foreign exchange policy, industrial policy etc. have much effect on business.
(iv) Help to Understand Market Conditions
It is necessary for an enterprise to have the knowledge of market structure and changes taking place in it. The knowledge about increase and decrease in demand, supply, monopolistic practices, government participation in business etc., is necessary for an enterprise.

Components of Business Environment

Dimensions of business environment mean all the factors, forces and institutions which have direct or indirect influence over the business transactions.
General Environment is the most important dimension of business environment as businessman cannot influence or change the components of general environment rather he has to change his plans and policies according to the changes taking place in general environment.
Economical Environment
Economic Environment consists of Gross Domestic Product, Income level at national level and per capita level, Profit earning rate, Productivity and Employment rate, Industrial, monetary and fiscal policy of the government etc.
The economic environment factors have immediate and direct impact on the businessman so businessmen must scan the economic environment and take timely actions to deal with these environments. Economic environment may put constraints and may offer opportunities to the businessman. After the new economic policy of 1991, lots of opportunities are offered to businessmen. The common factors which have influenced the Indian economic environment are
(a) Banking sector reform has led to many attractive schemes of deposits and lending money. The Banks are offering loans at very nominal rate of interest and with minimum formalities to be completed.
(b) Recent changes in economic and fiscal policy of country have encouraged NRIs and foreign investors to invest in Indian companies.
(c) Lots of economic reforms are taking place in leasing and financing institutions. The private sector is allowed to enter in financial institutions; as a result customers are gaining.
Some Aspects of Economic Environment
(i) Role of Private and Public sector
(ii) Rate of growth of GDP, GNP, and Per Capita Income
(iii) Rate of Saving and Investment
(iv) Balance of Trade
(v) Balance of Payment
(vi) Transport and Communication System
(vii) Money Supply in the Economy
(viii) International Debt
Social Environment

Social Environment consists of the customs and traditions of the society in which business is existing. It includes the standard of living, taste, preferences and education level of the people living in the society where business exists.
The businessman cannot overlook the components of social environment as these components may not have immediate impact on the business but in the long run the social environment has great impact on the business.
For example, when the Pepsi Cola Company used the slogan of "Come Alive" in their advertisement then the people of a particular region misinterpreted the word "Come Alive" as they assumed it means Coming out of Graves. So, they condemned the use of the product and there was no demand of Pepsi Cola in that region. So, the company had to change its advertisement slogan as it cannot survive in market by ignoring the sentiments of the people.
In India also, there are many Social reforms taking place and the common factors of Indian Social Environment are:
(a) Demand for reservation in jobs for minority and women
(b) Demand for equal status of women by paying equal wages for male and female workers
(c) Demand for automatic machines and luxury items in middle class families
(d) The social movements to improve the education level of girl child.
(e) Health and Fitness trend has become popular.
Some Aspects of Social Environment
(i) Quality of life
(ii) Importance or place of women in workforce
(iii) Birth and Death rates
(iv) Attitude of customers towards innovation, life style etc.
(v) Education and literacy rates
(vi) Consumption habits
(vii) Population
(viii) Tradition, customs and habits of people
Political Environment
Political environment constitutes all the factors related to government affairs such as type of government in power, attitude of government towards different groups of societies, policy changes implemented by different governments etc. The political environment has immediate and great impact on the business transactions so businessman must scan this environment very carefully.
The businessman has to make changes in his organisation according to the changing factor of political environment. For example, in 1977 when Janata Government came in power they made the policy of sending back all the foreign companies. As a result the Coca Cola Company had to close its business and leave the country.
The common factors and forces which have influenced the Indian political environment are:
(a) The government in Hyderabad is taking keen interest in boosting I.T. industry, as a result the state is more commonly known as Cyber bad instead of Hyderabad.
(b) After the economic policy of liberalization and globalization, the foreign companies got easy entry in India. As a result the Coca Cola which was sent back in 1977 came back to India. Along with Coca Cola, Pepsi Cola and many other foreign companies are establishing their business in India.
Some Aspects of Political Environment
(i) Present political system
(ii) Constitution of the country
(iii) Profile of political leaders
(iv) Government intervention in business
(v) Foreign policy of government
(vi) Values and ideology of political parties
Legal Environment
Legal environment constitutes the laws and various legislations passed in the parliament. The businessman cannot overlook the legislations because he has to perform his business transactions within the framework of legal environment.
The common legislation passed which has affected the business transactions are Trade Mark Act, Essential Commodity Act, Weights and Measures Act, etc. Most of the time legal environments put constraints on the businessman but sometimes they provide opportunities also. The common instances of Indian legal environment which have influenced business transactions recently are:
(a) Deregulation of capital market has made it easy for businessman to collect capital from primary market.
(b) Removal of control from the foreign exchange and liberalization in investment is encouraging foreign investors and NRIs to invest in Indian capital market.
(c) Advertisement of alcoholic product is prohibited.

(d) Compulsory to give statutory warning in Tobacco production.
(e) Delicencing policy of industries.

Some Aspects of Legal Environment

(i) Various laws and legislative acts.
(ii) Legal policies related to licensing.
(iii) Legal policies related to foreign trade.
(iv) Statutory warnings essential to be printed on label.
(v) Foreign Exchange Regulation and Management Act.
(vi) Laws to keep a check on Advertisements.

Technological Environment

Technological environment refers to changes taking place in the method of production, use of new equipment and machineries to improve, the quality of product. The businessman must closely monitor the technological changes taking place in his industry because he will have to implement these changes to remain in the competitive market.

Technological changes always bring quality improvement and more benefits for customers. The recent technological changes of Indian market are:
(a) Digital watches have killed the prospects and the business of traditional watches.
(b) Color T.V. technology has closed the business of black and white T.V.
(c) Artificial fabric has taken the market of traditional cotton and silk fabrics.
(d) Photo copier and Xerox machines have led to the closure of carbon paper business.
(e) Shift in Demand from vacuum tubes to transistors.
(f) Shift from steam locomotives its diesel and electric engine.
(g) From typewriter to World Processors.

Some Aspects of Technological Environment

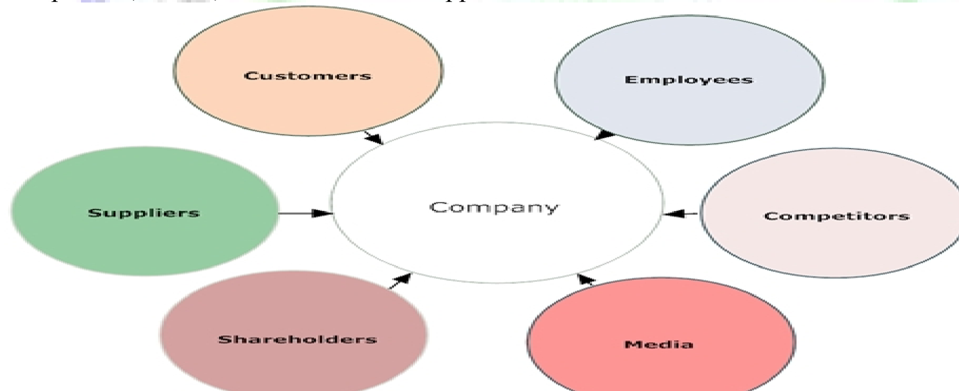
(i) Various Innovations and Inventions.
(ii) Scientific Improvements.
(iii) Developments in IT sector
(iv) Import and Export of Technology.
(v) Technological Advances in Computers.

Introduction to Micro-Environment

Micro environment factors are factors close to a business that have a direct impact on its business operations and success. Before deciding corporate strategy businesses should carry out a full analysis of their micro environment.

To learn about other factors, that are part of a firm's Marketing Environment read our articles about Macro Environment Factors and Internal Environment Factors.

The diagram below shows the 6 stakeholders involved in the Micro Environment – Customers, Employees, Competitors, Media, Shareholders and Suppliers.



Customers

As all businesses need customers, they should be Centred (Orientated) around customers. The firm's marketing plan should aim to attract and retain customers through products that meets their "wants and needs" and excellent customer service.

Employees

Employing staff with relevant skills and experience is essential. This process begins at recruitment stage and continues throughout an employee's employment via ongoing training and promotion opportunities. Training and development play a critical role in achieving a competitive edge; especially in Service Sector Marketing. If a business employs staff without motivation, skills or experience it will affect customer service and ultimately sales.

Suppliers
Suppliers provide businesses with the materials they need to carry out their business activities. A supplier's behaviour will directly impact the business it supplies. For example if a supplier provides a poor service this could increase time scales or product quality. An increase in raw material prices will affect an organization's Marketing Mix strategy and may even force price increases. Close supplier relationships are an effective way to remain competitive and secure quality products

Shareholders
As organizations require investment to grow, they may decide to raise money by floating on the stock market i.e. move from private to public ownership. The introduction of public shareholders brings new pressures as public shareholders want a return from the money they have invested in the company. Shareholder pressure to increase profits will affect organisational strategy. Relationships with shareholders need to be managed carefully as rapid short term increases in profit could detrimentally affect the long term success of the business.

Media
Positive media attention can "make" an organization (or its products) and negative media attention can "break" an organization. Organizations need to mange the media so that the media help promote the positive things about the organisation and reduce the impact of a negative event on their reputation. Some organisations will even employ public relations (PR) consultants to help them manage a particular event or incident.
Consumer television programmes with a wide and more direct audience can also have a very powerful impact on the success of an organisation. Some businesses recognize this and will change their reaction when consumers mention that they are going to contact a consumer television programme or the newspapers about the business.

Competitors
The name of the game in marketing is differentiation. Can the organization offer benefits that are better than those offered by competitors? Does the business have a unique selling point (USP)? Competitor analysis and monitoring is crucial if an organisation is to maintain or improve its position within the market. If a business is unaware of its competitor's activities they will find it very difficult to "beat" their competitors. The market can move very quickly for example through a change in trading conditions, consumer behaviour or technological developments. As a business it is important to examine competitors' responses to these changes so that you can maximize the impact of your response.

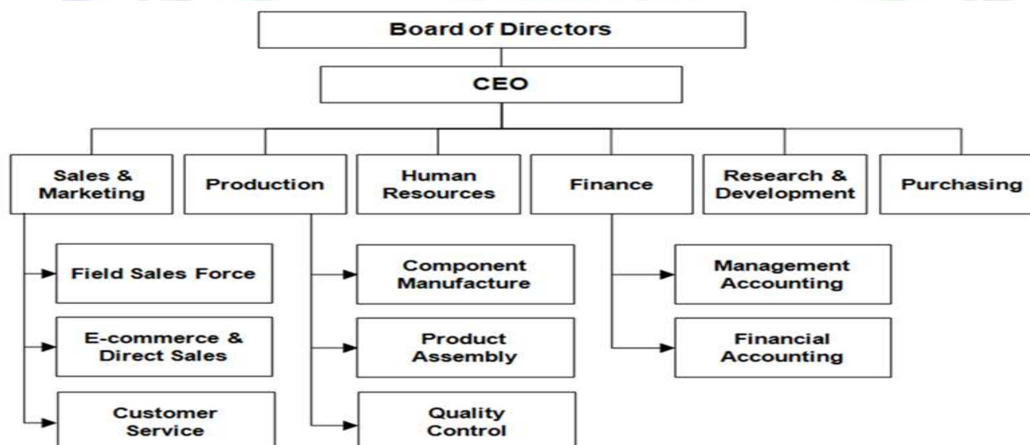
Conclusion
Businesses can not always control micro environment factors but they should endeavour to manage them along with Macro Environment and Internal Environment factors.

Internal Environment: Value system, Mission, Objectives
An organization's internal environment is composed of the elements within the organization, including current employees, management, and especially corporate culture, which defines employee behavior. Although some elements affect the organization as a whole, others affect only the manager. A manager's philosophical or leadership style directly impacts employees. Traditional managers give explicit instructions to employees, while progressive managers empower employees to make many of their own decisions. Changes in philosophy and/or leadership style are under the control of the manager. The following sections describe some of the elements that make up the internal environment.

VALUE SYSTEM
The value system of an organization means the ethical beliefs that guide the organization in achieving its mission and objective. The value system of a business organization also determines its behaviour towards its employees, customers and society at large. The value system of the promoters of a business firm has an important bearing on the choice of business and the adoption of business policies and practices. Due to its value system a business firm may refuse to produce or distribute liquor for it may think morally wrong to promote the consumption of liquor.
The value system of a business organization makes an important contribution to its success and its prestige in the world of business. For instance, the value system of J.R.D. Tata, the founder of Tata group of industries, was its self-imposed moral obligation to adopt morally just and fair business policies and practices which promote the interests of consumers, employees, shareholders and society at large. This value system of J.R.D. Tata was voluntarily incorporated in the articles of association of TISCO, a premier Tata company.
Infosys Technologies which won the first national corporate governance award in 1999 attributes its success to its high value system which guides its corporate culture. To quote one of its reports, "our corporate culture is to achieve our objectives in environment of fairness, honesty, transparency and courtesy towards our customers, employees, vendors and society at large" Thus value system of a business firm has an important bearing on its corporate culture and determines its behaviour towards its employees, shareholders and society as a whole.

MISSION

mission statement describes what the organization stands for and why it exists. It explains the overall purpose of the organization and includes the attributes that distinguish it from other organizations of its type.
A mission statement should be more than words on a piece of paper; it should reveal a company's philosophy, as well as its purpose. This declaration should be a living, breathing document that provides information and inspiration for the members of the organization. A mission statement should answer the questions, "What are our values?" and "What do we stand for?" This statement provides focus for an organization by rallying its members to work together to achieve its common goals.
But not all mission statements are effective in America's businesses. Effective mission statements lead to effective efforts. In today's quality-conscious and highly competitive environments, an effective mission statement's purpose is centered on serving the needs of customers. A good mission statement is precise in identifying the following intents of a company:
Customers: who will be served
Products/services: what will be produced
Location: where the products/services will be produced
Philosophy: what ideology will be followed
Objectives
The objective of all firms is assumed to be maximization of long-run profits. But mission is different from this narrow objective of profit maximization. Mission is defined as the overall purpose or reason for its existence which guides and influences its business decision and economic activities.
The-choice of a business domain, direction of its development, choice of a business strategy and policies are all guided by the overall mission of the company. For example, "to become a world-class company and to achieve global dominance has been the mission of 'Reliance Industries of India'. Similarly "to become a research based international pharma company" has been stated as mission of Ranbaxy Laboratories of India.
Organizational Structure
Organizational Structure
An organizational structure is defined as "a system used to define a hierarchy within an organization. It identifies each job, its function and where it reports to within the organization." A structure is then developed to establish how the organization operates to execute its goals.
There are many types of organizational structures. There's the more traditional functional structure, the divisional structure, the matrix structure and the flatarchy structure. Each organizational structure comes with different advantages and disadvantages and may only work for companies or organizations in certain situations or at certain points in their life cycles.
Types of Organizational Structures
Functional
The functional structure is based on an organization being divided up into smaller groups with specific tasks or roles. For example, a company could have a group working in information technology, another in marketing and another in finance.

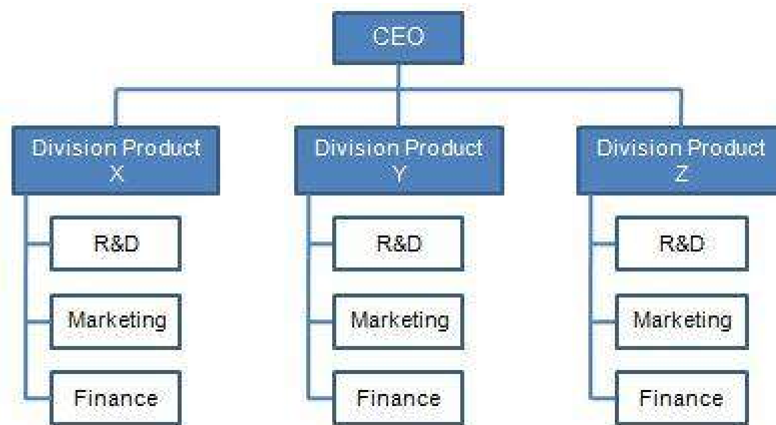


Each department has a manager or director who answers to an executive a level up in the hierarchy who may oversee multiple departments. One such example is a director of marketing who supervises the marketing department and answers to a vice president who is in charge of the marketing, finance and IT divisions.
An advantage of this structure is employees are grouped by skill set and function, allowing them to focus their collective energies on executing their roles as a department.
One of the challenges this structure presents is a lack of inter-departmental communication, with most issues and discussions taking place at the managerial level among individual departments. For example, one

department working with another on a project may have different expectations or details for its specific job, which could lead to issues down the road.

Divisional

Larger companies that operate across several horizontal objectives sometimes use a divisional organizational structure.

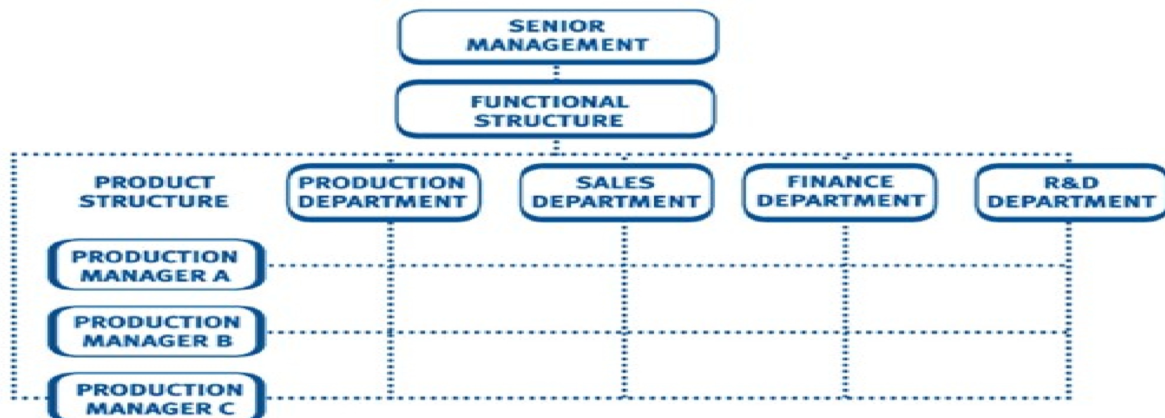


This structure allows for much more autonomy among groups within the organization. One example of this is a company like General Electric. GE has many different divisions including aviation, transportation, currents, digital and renewable energy, among others.

Under this structure, each division essentially operates as its own company, controlling its own resources and how much money it spends on certain projects or aspects of the division.

Matrix

A hybrid organizational structure, the matrix structure is a blend of the functional organizational structure and the projectized organizational structure.



In the matrix structure, employees may report to two or more bosses depending on the situation or project. For example, under normal functional circumstances, an engineer at a large engineering firm could work for one boss, but a new project may arise where that engineer's expertise is needed. For the duration of that project, the employee would also report to that project's manager, as well as his or her boss for all other daily tasks.

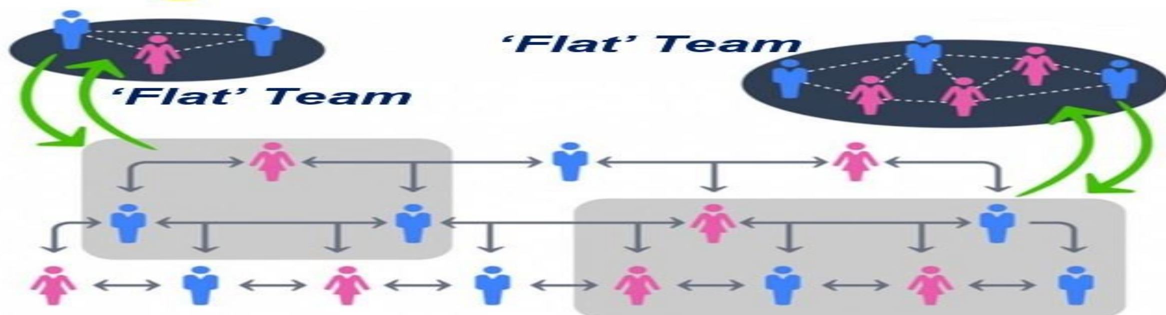
The matrix structure is challenging because it can be tough reporting to multiple bosses and knowing what to communicate to them. That's why it's very important for the employees to know their roles, responsibilities and work priorities.

Advantages of this structure is that employees can share their knowledge across the different functional divisions, allowing for better communication and understanding of each function's role. And by working across functions, employees can broaden their skills and knowledge, leading to professional growth within the company.

Flatarchy

While the previous three types of organizational structures may work for some organizations, another hybrid organizational structure may be better for startups or small companies.

Blending a functional structure and a flat structure results in a flatarchy organizational structure, which allows for more decision making among the levels of an organization and, overall, flattens out the vertical appearance of a hierarchy.



The best example of this structure within a company is if the organization has an internal incubator or innovation program. Within this system, the company can operate in an existing structure, but employees at any level are encouraged to suggest ideas and run with them, potentially creating new flat teams. Lockheed Martin, according to Forbes, was famous for its skunkworks project, which helped develop the design of a spy plane.
A benefit of this system is it allows for more innovation company-wide, as well as eliminating red tape that could stall innovation in a functional structure. As for the negatives, the structure could be confusing and inconvenient if everyone involved doesn't agree on how the structure should be organized.
Organizational Resources, Company Image
Organizational Resources represent all resources available to the organization and necessary for the performance of its activities. In this resource are included:
Human Resources: represent all people (as well as their qualifications and capacities) that cooperate with the organization and are currently their main asset.
Material and Technological Resources: include all of the equipments and tools used by the organization, the manufacturing and administrative facilities, technologies and processes used in the production and management, among many others.
Financial Resources represent the monetary funds held by the organization (or the capacity to obtain them) and that can be used in the financing of the current activity or in the attainment of new investments.
Market image and credibility abroad: represents the positioning of the organization and its brands, that is, what the consumers think about the goods or services produced by the organization.
Company Image
Company Image is the *perception held* about an organization by the various stake holders in the company (like investors, customers, vendors & government), public and the society at large. It need not reflect the actual position but rather it is a view that the society has about the company. It is simply the impression that comes to the mind when one comes across the name of the company.
One of the onerous tasks on the field for marketing professionals is to project this image and thereby hit the target market. It can be done in various ways – by branding promotion, launching advertisement campaigns, interaction with media, communication with customers at different levels etc.
For example let us consider ITC which attempts to build an image of being a socially responsible company. Through its various initiatives like solid waste management, using energy from renewable sources, getting their hotels to be LEED® certified etc.
How to project a good company image?
So, how should you go about altering that brand image, or creating a new one from scratch? Let's go over some of the basics…
(i) Create a recognizable, tangible brand
First thing's first; in order to have any success with your company's image you need to create a brand that is both identifiable and real – something that your customers will instantly recognize and connect with, encouraging them to seek you out whenever they're thirsty, in need of financial advice, or looking for a new appliance. Think Coca Cola and you'll no doubt hum the jingle to yourself, or find you're very strongly drawn to the color red all of a sudden… Your character, and the personality and color scheme that you choose to assign to your brand are what will speak to the market, so you need to think big, or go home. A half-hearted effort at this point will do little to further your reputation, after all.
(ii) Think carefully about the language you use
It doesn't matter how good your product or service is, nobody is going to look twice if your literature is sloppy, or your public presence is half-hearted. You don't have to be a walking dictionary to succeed in business, but taking the time to prepare marketing material, online content, and speeches with the correct grammar and

spelling will ensure you're given a second look. Would you want to give your business to a company that hadn't bothered to proofread its own marketing material first, or listen to a speech peppered with errors? The chances are your prospective clients wouldn't either. Such care will ensure your company is always thought of in high regard; if you pay close attention to your wording, you're likely to be very passionate about your product.

(iii) Consider the wheel that you're behind

We said that image is everything and it really is; that includes the type of car you drive, too. You see, while you may think of it as a means of getting from A to B, the company vehicle you're regularly seen in will say so much about you, both as an individual, and as the face of a company. Whether we want to admit it or not we're rather good at judging people based on the wheels they park in front of their house or workplace, so imagine what prospective clients will think when they see that rust bucket taking up valuable curb space…

The good news is that you needn't spend all of your company's profits on a chauffeur driven limo, or the latest sports car to make a good impression – in fact, choosing an understated set of wheels can actually work in your favor. Think company car, think reliable, strong, and businesslike, such as a Mazda, or similarly trustworthy brand; you want your clients to know they're in a safe pair of hands when they turn to you, and for them to view your car as symbol of your commitment to the job, rather than a status symbol.

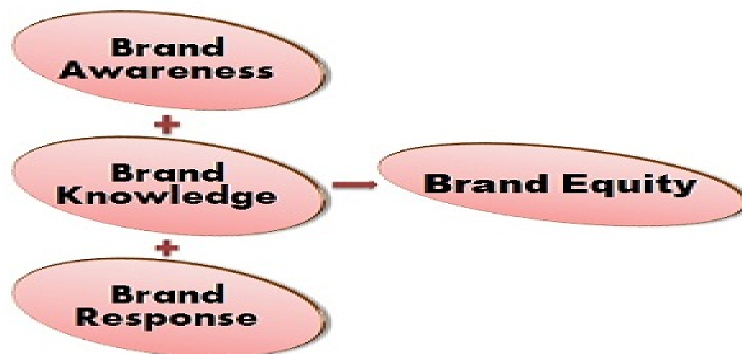
There are, of course, other ways to project a good company image; watching your conduct when you use social media, paying attention to your clothing and accessories every day, and taking the time to network in order to further your business's reach are just some of the additional ways that you can ensure your company goes places. Remember, image is everything; your company needs you.

Brand Equity

The **Brand Equity** refers to the additional value that a consumer attaches with the brand that is unique from all the other brands available in the market. In other words, Brand Equity means the awareness, perception, loyalty of a customer towards the brand.

E.g., The additional value a customer is willing to pay for Uncle Chips against any local chips brand available with the shopkeeper.

Brand Equity is the goodwill that a brand has gained over time.



Brand Equity can be seen in the way the customer thinks, feels, perceives the product along with its price and market position and also the way brand commands profit and market share for the organization as a whole.

Customer Brand Equity can be studied in 3 different ways:

The **Different Responses** of a customer towards the product or service helps in determining the brand equity. The way customer thinks about the brand and considers it to be different from the other brands will generate a positive response for that brand and will contribute to its goodwill. g., Customer, have a positive response towards Mac laptops because of its anti- virus software.

The responses can be generated only if customers have sufficient knowledge about the brand; thus, **Brand Knowledge** is essential to determine the brand equity. The Brand knowledge includes the thoughts, feelings, information, experiences, etc. that establish an association with the brand. g., Brand Association reflects the knowledge about the product such as woodland is recognized for its rough and tough styling.

The different customer's response that adds to the brand value depends solely on the **Marketing of a Brand**. The strong brand results in substantial revenues for the organization and better understanding about the product among the customers.

Thus, the marketers basically study the **Customer-Based Approach** wherein they study the response of a customer towards the brand that can be reflected in their frequency of purchase. It focuses on customer's perception i.e. what they have read, felt, thought, seen about the brand and how it has helped them to satisfy their urge of need.

External Environment: Firm, Customers, Suppliers, Distributors, Competitors, Society

To run the business successfully, it is necessary to understand the environment with in which the business operates. Business environment j is a set of external factors that affects the business decisions.

The environment, which lies outside the organization, is known as external | environment. External factors are unpredictable and uncontrollable. They are beyond the control of the company.

According to William Glueck and Jauck, "In environment there are several factors which constantly bring opportunities and threats to the business firm. It includes social, economic, technological and political conditions".

Firm

The plans and policies of the firm should be properly framed taking into consideration the objectives and resources of the firm. Proper plans and policies help the firm to accomplish its objectives.

The higher authority must analyze the internal environment to foresee the changes and frame appropriate policies well in time.

For example: the personnel policy in respect of promotion should be based on merit rather than seniority.

The survival and success of the firm largely depends on the quality of human resources. The social behaviour of the employees greatly affects the working of the business. The characteristics of human resource like skill, quality, morale, commitment can contribute to the success of the organization

Capital is the lifeblood of every business. Finance relates to money. A firm needs adequate funds to meet its working capital and fixed capital requirements. There is a need to have proper management of working capital and fixed capital.

A firm should develop, maintain and enhance a good corporate image in the minds of employees, investors, customers etc. Poor corporate image is a weakness of the firm.

Customer

Consumer is the king of the market. They are the centers of the business. They are one of the most important factors in the external environment. Customer satisfaction has become more challenging due to globalization.

Nowadays, consumer expectations are high. Therefore the firm must keep in mind the customer's expectations, their requirements and accordingly make market decisions. The success of the business depends upon identifying the needs, wants, likes and dislikes of the customers and meeting with their satisfaction.

Businesses have different classes of customers like wholesale customers, retail customers, industrial customer's foreign customers etc. To enhance growth, it is necessary for the business firm to identify the needs of these customers and should undertake research and developmental activities.

Suppliers

Suppliers supply raw material, machines, equipment's and other supplies. The company has to keep a watch over prices and quality of materials and machines supplied. It also has to maintain good relations with the suppliers.

It is necessary to have reliable source of supply for the smooth working of the firm. Uncertain supplies compel the firm to maintain high inventories resulting into increase in the cost. The business should not only rely on the single supplier but also have relations with multiple suppliers.

Distributors

Distributors include agents and brokers who help the business firm to find the customers. They help the firm to promote and distribute the goods to the final consumers.

They are the link between the firm and the final customers. Market intermediaries include wholesalers, retailers, advertising firm, media, transport agencies, banks, financial institutions etc. They assist the company in promoting and targeting its product to the right market.

Competitors

The company has to identify its competitor's activities. Information must be collected about competitors in respect of their prices, products, and promotion and distribution strategies. World is becoming a global market.

Business firm has to face tremendous competition not only from Indian business firm but also from foreign firms. To achieve growth and success they have to monitor various activities of their competitors.

Liberalization, privatization and globalization have promoted competition that has created threats to domestic units. The business must understand the strategies framed by the competitors to respond in an effective manner.

Society

Society affects company's decisions. The expectation of the society from the business is increasing. Therefore the business firm maintains public relations department to handle complaints, grievances and suggestions from general public. The members of the society include:

(i) Financial institutions
(ii) Shareholders
(iii) Government
(iv) Employees
(v) General public

Introduction to Macro Components- Demographic, Natural, Political, Social, Cultural, Economic, Technological, International and Legal

The macro environment consists of the larger societal factors that affect the working of a firm. Macro environment is also known as general environment. The macro factors are generally uncontrollable.
According to Philip Kotler, "Macro environment create forces that creates opportunities and pose threats to the business unit. It includes economic, demographic, natural, technological, political, political and cultural environments."
Macro Factor
Demographic Economic Technological Cultural Political Natural Legal
Demographic Environment
Demographic Environment relates to the human population with reference to its size, education, sex ratio, age, occupation, income, status etc. Business deals with people so they have to study in detail the various components of demographic environment.
Demographic environment differs from country to country. Demographic factors like size of the population, age composition, density of population, rural-urban distribution, family size, income level, status etc. have significant implications on business.
For example: If the population is large, then the demand for goods and services will be more. It will have favourable effect on the business. In the same way educational level is also an important factor affecting business.
Natural Environment
Resource availability like land, water and mineral is the fundamental factor in the development of business organization. It includes natural resources, weather, climatic conditions, port facilities, topographical factors such as soil, sea, rivers, rainfall etc.
Every business unit must look for these factors before choosing the location for their business.
The natural environment largely determines the functioning of a business firm. Natural environment has a great influence on the working of a business. The business organization should consider the natural factors before starting their operations.
Natural calamities like flood, drought, cyclone, Tsunami etc. can also affect the business environment.
Political Environment
The political environment in a country influences the legislations and government rules and regulations under which a firm operates.
Political environment means influence exerted by:
(a) Legislature
This includes parliament, legislative assemblies. They are the law making bodies that frame rules and regulations.
(b) Executives:
They include government beurocracy who implements the decision.
(c) The Judiciary
It includes Supreme Court, High Court who sees whether the decisions taken and implemented by the executive are within the constitutional framework. They are also known as dispute settlement bodies.
Legislature, executives and judiciary are the important pillars of political environment. A stable progressive and healthy political environment is very necessary for the growth and development of business.
Social Environment
The Social forces link to factors that affect society's basic values, preferences and behavior. The basis for these factors is formed by the fact that people are part of a society and cultural group that shape their beliefs and values. Many cultural blunders occur due to the failure of businesses in understanding foreign cultures. For instance, symbols may carry a negative meaning in another culture.
Cultural Environment
Culture involves knowledge, values, belief, morals, laws, customs, traditions etc. Culture passes from one generation to another through institutions like family, schools, and colleges. Business is an integral part of the social system.
Society is largely influenced by the culture and in turn culture influence the business firm. Culture shapes the attitude and behaviour of the society. Any change in the cultural factor affects the business in large. Business should be organized and governed, taking into consideration various values and norms of the society.
Economic Environment
Economic environment consists of economic factors that influence the functioning of a business unit. These factors include economic system, economic policies, trade cycle, economic resources, gross national product, corporate profits, inflation rate, employment, balance of payments, interest rates, consumer income etc. Economic environment is dynamic and complex in nature

A business firm closely interacts with economic environment that consist of:
(a) Economic conditions in the market i.e. demand and supply factors
(b) Economic policies of the government: monetary policy, fiscal policy, industrial policy, trade policy, foreign investment policy etc.
Economic system prevailing in the country also affects the business growth. Every country has different economic system. The economic system includes capitalism, socialism, and mixed economy. Business depends upon economic environment for their inputs and also for market. Changes in the economic factors can adversely affect the working of a business firm.

Technological Environment

Technology has brought about far reaching changes in the methods of production, quality of goods, productivity, and packaging. There is a constant technological development-taking place.
The business firm must constantly monitor the changes in the technological environment, which may have a considerable impact on the working of a business. It also indicates the pace of research and development and progress made in introducing modern technology in production.
Technology provides capital intensive but cost effective alternative to traditional labour-intensive methods. In a competitive business environment technology is the key to development. Technology helps to run the business better and faster.

International Environment

International managers face intense and constant challenges that require training and understanding of the foreign environment. Managing a business in a foreign country requires managers to deal with a large variety of cultural and environmental differences.

Legal Environment

The state sets the formal rules, laws and regulations for the country's operational system. It creates a framework of rules and regulations within which a business has to operate. The business should have complete knowledge of laws and policies to run the business effectively. Some of the laws are:
(a) Consumer protection Act-1986
(b) Factories Act-1948
(c) Workers compensation Act-1923
(d) FEMA Act-1999
(e) The Companies Act-1956
(f) The Environment protection Act-1986

Difference between Macro and Micro Environment

The following are the major difference between micro and macro environment:
Micro-environment is the environment which is in immediate contact with the firm. The environment which is not specific to a particular firm but can influence the working of all the business groups is known as Macro Environment.
The factors of the **micro-environment** affect the particular business only, but the **macro-environmental** factors affect all the business entities.
The **micro environmenta**l factors are controllable by the business. However, the macroeconomic variables are uncontrollable.
The elements of the **micro-environment** affect directly and regularly to the firm which is just opposite in the case of the macro environment.
The study of the **micro-environment** is described as COSMIC analysis. Conversely, PESTLE Analysis is a study of the macro environment.

Conclusion

Micro-environment and macro environment, both cover the overall environment of business. So, they are more complementary rather than contradictory. The study of these environments will help to know the strength, weakness, opportunity and threat of business.

UNIT-2

Role of government in Business

Permission to Form: Most businesses need to register with a state government to operate. Corporations need a charter, and other forms of businesses, such as limited liability companies or partnerships, need other forms of registration. The function of this registration is usually to define the financial liability the owners of the company have. It limits their risk to the amount they have invested in that particular organization. Registration also allows the government to monitor companies to execute its other functions in the business world.

Contract Enforcement: Businesses contract with other businesses. These contracts may be complex, such as mergers, or they may be as simple as a warranty on supplies purchased. The government enforces these contracts. Companies bring one another to court just as individuals do. An oral agreement can constitute a contract, but usually only a written agreement is provable. If one party fails or refuses to meet its obligation under a contract, a company will turn to the legal system for enforcement.

Consumer Protection: The government's role in business includes protecting the consumer or customer. When a vendor fails to honor the guarantee, the purchaser has recourse in the law. Likewise, when a product causes harm to an individual, the courts may hold the vendor or manufacturer responsible. Labeling is another requirement the government imposes on marketers. Many foods, for example, must display nutritional content on the packaging. The government has been making advances in consumer rights for decades. However, the consumer movement still needs considerable development to protect the public.

Employee Protection: Many state and federal agencies work to protect the rights of employees. The Occupational Health and Safety Administration, for example, is an agency under the Department of Labor. Its mission is to ensure a safe and healthful work environment. The Equal Opportunity Commission protects employees from discrimination.

Environmental Protection: When a marketing transaction impacts a third party–others besides the marketer and purchaser–the effect is called an "**externality**." The third party is often the environment. Thus, it is the government's role to regulate industry and thereby protect the public from environmental externalities. Whether the government is effective in this role is a matter of much discussion. The Gulf oil spill of 2010 has been cited as evidence of lax oversight.

Taxation: Governments at all levels tax businesses, and the resulting revenue is an important part of government budgets. Some revenue is taxed at the corporate level, then taxed as personal income when distributed as dividends. This is in no way inappropriate, since it balances the tax burden between the company and individual and allows the government to tax more equitably.

Investor Protection: Government mandates that companies make financial information public, thereby protecting the rights of investors and facilitating further investment. This is generally done through filings with the Securities and Exchange Commission. Whether federal regulation has been adequate is a matter of much debate.

Legal framework in India : An effective **regulatory and legal framework** is indispensable for the proper and sustained growth of the company. In rapidly changing national and global business environment, it has become necessary that regulation of corporate entities is in tune with the emerging economic trends, encourage good corporate governance and enable protection of the interests of the investors and other stakeholders. Further, due to continuous increase in the complexities of business operation, the forms of corporate organizations are constantly changing. As a result, there is a need for the law to take into account the requirements of different kinds of companies that may exist and seek to provide common principles to which all kinds of companies may refer while devising their corporate governance structure.

The important legislations for regulating the entire corporate structure and for dealing with various aspects of governance in companies are Companies Act, 1956 and Companies Bill, 2004. These laws have been introduced and amended, from time to time, to bring more transparency and accountability in the provisions of corporate governance. That is, corporate laws have been simplified so that they are amenable to clear interpretation and provide a framework that would facilitate faster economic growth.

Secondly, the Securities Contracts (Regulation) Act, 1956, Securities and Exchange Board of India Act, 1992 and Depositories Act, 1996 have been introduced by Securities and Exchange Board of India (SEBI), with a

view to protect the interests of investors in the securities markets as well as to maintain the standards of corporate governance in the country.

Legal Framework of Doing Business in India: Legal Framework of Doing Business in India is intended to provide foreign investors and their advisors a broad legal perspective on foreign investment in India. The guide is written in general terms and its application to specific situations will depend on the particular circumstances involved. It summarizes all major foreign investment regulations and procedures that are currently in force in India. It has been prepared in order to facilitate multinational companies, start-ups and venture capital investor's set-up business operations in India and includes valuable regulations, forms and policies for ready reference of entrepreneurs and senior managers of foreign entities. It also includes a step-by-step guide to compliance and filings of forms in India. The information in this guide is accurate as of March 20, 2014.

Citizens of India have the option to set-up their business operations either in the form of incorporated entities, (a company or limited liability partnership) or unincorporated entities like a sole proprietorship. On the other hand, a foreign company opting to enter India can do so either by incorporating a wholly owned subsidiary ("WOS") or by way of joint venture collaboration with an Indian company ("JV Company"). For registration and incorporation of WOS or JV Company, one would first need to incorporate an Indian company and then file an application with Registrar of Companies ("ROC"). The WOS and JV Company will be subject to Indian laws and regulations as applicable to other domestic Indian companies.

Additionally, a foreign company not opting to be incorporated in India, either by way of a JV Company or WOS, is permitted to conduct its business operations through any of the following offices, namely i) liaison office, also known as a representative office; ii) branch office; or iii) project office. Such offices can undertake activities permitted to them under the regulations framed by Foreign Exchange Management Act, 1999 ("FEMA") for such offices. The approvals for these offices are accorded by the Reserve Bank of India ("RBI") on a case-to-case basis.

The Government of India is making all efforts to attract and facilitate foreign direct investment ("FDI") from abroad including investment from non-resident Indians ("NRIs") to compliment and supplement domestic investment. To make the investment attractive, returns on them are freely repatriable subject to certain legislative restrictions. In addition to approval for bringing FDI in India, many other clearances and approvals, such as registration of company, environment and land related clearances, permission for import of plant and machinery, land acquisition etc are required for starting a business in India.

Economic environment: economic system and economic policies

The economic environment refers to all the economic factors that affect commercial and consumer behavior. The economic environment consists of all the external factors in the immediate marketplace and the broader economy. These factors can influence a business, i.e., how it operates and how successful it might become.

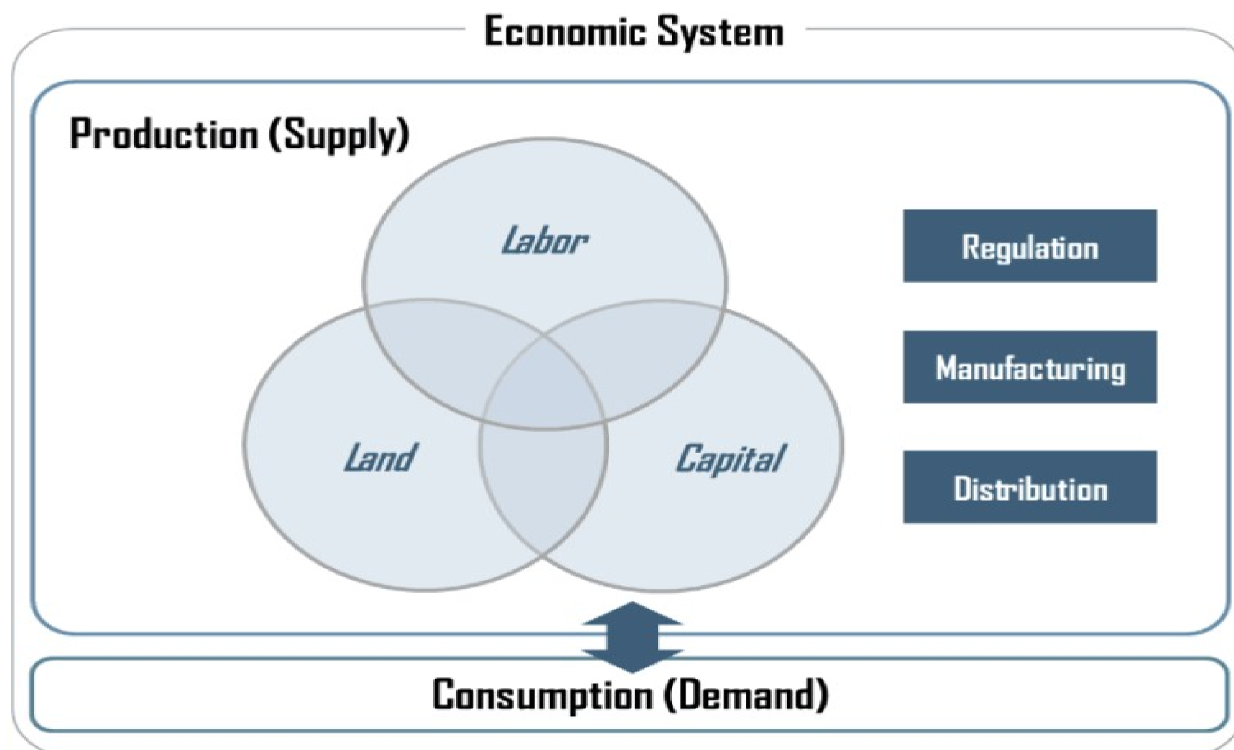
The economic environment consists of different things for different people. For example, for a farmer, the weather and price of fertilizers are important factors.

For a TV channel on the other hand, the growth in Internet advertising matters a great deal, but not the weather. Internet advertising matters to a TV station because the Internet competes for advertising business. For a farmer, however, advertising media is not important.

The Business Development Bank of Canada has the following definition of the term:

"The term economic environment refers to all the external economic factors that influence buying habits of consumers and businesses and therefore affect the performance of a company."

Economic System: An economic system is an organized way in which a country allocates resources and distributes goods and services across the whole nation or a given geographic area. It is includes the combination of several institutions, entities, agencies, decision-making processes and patterns of consumption that make up the economic structure of a specific community. Hence it is a type of social system.



An economic system defines how all the entities in an economy interact. Defining them today is much more complicated than it used to be. Ancient systems were relatively simple – trade was carried out using barter and there were very few treaties and rules of engagement.

Economic Policy: An economic policy is a course of action that is intended to influence or control the behavior of the economy. Economic policies are typically implemented and administered by the government. Examples of economic policies include decisions made about government spending and taxation, about the redistribution of income from rich to poor, and about the supply of money. The effectiveness of economic policies can be assessed in one of two ways, known as positive and normative economics.

Positive and normative economics

Positive economics attempts to describe how the economy and economic policies work without resorting to value judgments about which results are best. The distinguishing feature of positive economic hypotheses is that they can be tested and either confirmed or rejected. For example, the hypothesis that "an increase in the supply of money leads to an increase in prices" belongs to the realm of positive economics because it can be tested by examining the data on the supply of money and the level of prices.

Normative economics involves the use of value judgments to assess the performance of the economy and economic policies. Consequently, normative economic hypotheses cannot be tested. For example, the hypothesis that "the inflation rate is too high" belongs to the realm of normative economics because it is based on a value judgment and therefore cannot be tested, confirmed, or refuted. Not surprisingly, most of the disagreements among economists concern normative economic hypotheses.

Goals of economic policy. The goals of economic policy consist of value judgments about what economic policy should strive to achieve and therefore fall under the heading of normative economics. While there is much disagreement about the appropriate goals of economic policy, several appear to have wide, although not universal, acceptance. These widely accepted goals include:

- **Economic growth:** Economic growth means that the incomes of all consumers and firms (after accounting for inflation) are increasing over time.
- **Full employment:** The goal of full employment is that every member of the labor force who wants to work is able to find work.

- **Price stability:** The goal of price stability is to prevent increases in the general price level known as inflation, as well as decreases in the general price level known as deflation.

Concept of Capitalism, Socialism and Mixed Economy

Capitalism: Capitalism is an economic system where private entities own the factors of production. The four factors are entrepreneurship, capital goods, natural resources, and labor. The owners of capital goods, natural resources, and entrepreneurship exercise control through companies. The individual owns his or her labor. The only exception is slavery, where someone else owns a person's labor. Although illegal throughout the entire world, slavery is still widely practiced.

Characteristics of Capitalism: Capitalistic ownership means two things. First, the owners control the factors of production. Second, they derive their income from their ownership. That gives them the ability to operate their companies efficiently. It also provides them with the incentive to maximize profit.

Capitalism requires a free market economy to succeed. It distributes goods and services according to the laws of supply and demand. The law of demand says that when demand increases for a particular product, price rises. When competitors realize they can make a higher profit, they increase production. The greater supply reduces prices to a level where only the best competitors remain.

The owners of supply compete against each other for the highest profit. They sell their goods at the highest possible price while keeping their costs as low as possible. Competition keeps prices moderate and production efficient.

That means the laws of supply and demand set fair prices for stocks, bonds, derivatives, currency, and commodities. Capital markets allow companies to raise funds to expand. Companies distribute profits among the owners. They include investors, stockholders, and private owners.

Advantages of Capitalism: Capitalism results in the best products for the best prices. That's because consumers will pay more for what they want the most. Businesses provide what customers want at the highest prices they'll pay. Prices are kept low by competition among businesses. They make their products as efficient as possible to maximize profit.

Most important for economic growth is capitalism's intrinsic reward for innovation. This includes innovation in more efficient production methods. It also means the innovation of new products. As Steve Jobs said, "You can't just ask customers what they want and then try to give that to them. By the time you get it built, they'll want something new."

Disadvantages of Capitalism: Capitalism doesn't provide for those who lack competitive skills. This includes the elderly, children, the developmentally disabled, and caretakers. To keep society functioning, capitalism requires government policies that value the family unit.Despite the idea of a "level playing field," capitalism does not promote equality of opportunity. Those without the proper nutrition, support, and education may never make it to the playing field. In the short term, inequality may seem to be in the best interest of capitalism's winners. They have fewer competitive threats. They may also use their power to "rig the system" by creating barriers to entry. For example, they will donate to elected officials who sponsor laws that benefit their industry. They could send their children to private schools while supporting lower taxes for public schools. In the long term, inequality will limit diversity and the innovation it creates. For example, a diverse business team is more able to identify market niches. It can understand the needs of society's minorities, and target products to meet those needs.

Socialism: Socialism is an economic system where everyone in society equally owns the factors of production. The ownership is acquired through a democratically elected government. It could also be a cooperative or a public corporation where everyone owns shares. The four factors of production are labor, entrepreneurship, capital goods, and natural resources. Socialism's mantra is, "From each according to his ability, to each according to his contribution." Everyone in society receives a share of the production based on how much each has contributed. Workers receive their share after a percentage has been deducted for the common good. Examples are transportation, defense, and education. Some also define the common good as caring for those who can't directly contribute to production. Examples include the elderly, children, and their caretakers.

Socialism assumes that the basic nature of people is cooperative. That nature hasn't yet emerged in full because capitalism or feudalism has forced people to be competitive. Therefore, a basic tenet of socialism is that the economic system must support this basic human nature for these qualities to emerge. These factors are valued for their usefulness to people. This includes individual needs and greater social needs. That might include the preservation of natural resources, education, or health care. That requires most economic decisions to be made by central planning, as in a command economy.

Advantage of Socialism: Under socialism, workers are no longer exploited, since they own the means of production. All profits are spread equitably among all workers, according to his or her contribution. The cooperative system realizes that even those who can't work must have their basic needs met, for the good of the whole. The system eliminates poverty. Everyone has equal access to health care and education. No one is discriminated against. Everyone works at what one is best at and what one enjoys. If society needs jobs to be done that no one wants, it offers higher compensation to make it worthwhile.

Disadvantage of Socialism : The biggest disadvantage of socialism is that it relies on the cooperative nature of humans to work. It negates those within society who are competitive, not cooperative. Competitive people tend to seek ways to overthrow and disrupt society for their own gain. A second related criticism is that it doesn't reward people for being entrepreneurial and competitive. As such, it won't be as innovative as a capitalistic society. A third possibility is that the government set up to represent the masses may abuse its position and claim power for itself.

Mixed Economy: A mixed economic is a system that combines aspects of both capitalism and socialism. A mixed economic system protects private property and allows a level of economic freedom in the use of capital, but also allows for governments to interfere in economic activities in order to achieve social aims. According to neoclassical theory, mixed economies are less efficient than pure free markets, but proponents of government interventions argue that the base conditions such as equal information and rational market participants cannot be achieved in practical application. Most modern economies feature a synthesis of two or more economic systems, with economies falling at some point along a continuum. The public sector works alongside the private sector, but may compete for the same limited resources. Mixed economic systems do not block the private sector from profit-seeking, but do monitor profit levels and may nationalize companies that are deemed impediments to the public good. The United States is mostly a free market economy, but it incorporates elements such as protection for agriculture and manufacturing through trade restrictions and subsidies. This makes the United States a mixed economy by definition.

Advantages and Disadvantages of a Mixed Economy: Many of the advantages of a mixed economy are found in a market economy. Goods and services are distributed where they are most needed, while allowing prices to measure supply and demand. Secondly, it rewards the producers who are the most efficient with the biggest profits, meaning consumers get the most value for their dollar. A mixed economy promotes innovation and improvement, and gives capital to those producers who are most efficient. But if the market has too much freedom and liberty, it can make the environment less competitive sans support from the government. Furthermore, the country could accumulate more debt by creating government-subsidized industries — like defense or military — slowing down the economy.

Competition Act and FEMA

Competition Act: The competition act of 2002 was passed by the parliament of India so as to form a commission to oversee the business operations of companies and individuals in the country following fair practices of competition and economic growth of the country. This act applies to the whole of republic of India except for Jammu and Kashmir. It applies for agreement, acquisition or any cartel involving business transactions that has an economic impact for the country.

Objectives of Competition Act

(I) The first and foremost duty of the commission is to exercise control over the practices in competition, which are having adverse effect on competition.

(II) In addition to this, the commission also targets to introduce healthy measure for promotion and sustenance of competition.

(III) It largely targets to protect the interests of the consumers and give fair trade practices their due place.

(IV) The Commission has also kept the target to place its opinion on the issues about competition prevailing in India.

(V) It would also act on a reference received from a statutory authority, if the same has been undertaken by any law in order to promote competition and create awareness in public, and inculcate training on majors issues in competition.

Functions of Competition Act: The Act establishes a Commission which is duty bound to protect the interests of the free and fair competition (including the process of competition), and as a consequence, protect the interests of consumers. Broadly, the Commission's duty is:-

- To prohibit the agreements or practices that have or are likely to have an appreciable adverse effect on competition in a market in India, (horizontal and vertical agreements / conduct)
- To prohibit the abuse of dominance in a market
- To prohibit acquisitions, mergers, amalgamations etc. between enterprises which have or are likely to have an appreciable adverse effect on competition in market(s) in India.

The Foreign Exchange Management Act, 1999 (FEMA): The Foreign Exchange Management Act, 1999 (FEMA) is an Act of the Parliament of India "to consolidate and amend the law relating to foreign exchange with the objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in India".[1] It was passed in the winter session of Parliament in 1999, replacing the Foreign Exchange Regulation Act (FERA). This act makes offences related to foreign exchange civil offenses. It extends to the whole of India.,[2] replacing FERA, which had become incompatible with the pro-liberalization policies of the Government of India. It enabled a new foreign exchange management regime consistent with the emerging framework of the World Trade Organization (WTO). It also paved the way for the introduction of the Prevention of Money Laundering Act, 2002, which came into effect from 1 July 2005.

Features of FEMA

- Activities such as payments made to any person outside India or receipts from them, along with the deals in foreign exchange and foreign security is restricted. It is FEMA that gives the central government the power to impose the restrictions.
- Without general or specific permission of the MA restricts the transactions involving foreign exchange or foreign security and payments from outside the country to India – the transactions should be made only through an authorized person.
- Deals in foreign exchange under the current account by an authorized person can be restricted by the Central Government, based on public interest generally.
- Although selling or drawing of foreign exchange is done through an authorized person, the RBI is empowered by this Act to subject the capital account transactions to a number of restrictions.
- Residents of India will be permitted to carry out transactions in foreign exchange, foreign security or to own or hold immovable property abroad if the currency, security or property was owned or acquired when he/she was living outside India, or when it was inherited by him/her from someone living outside India.

Monetary and Fiscal Policies: Monetary policy and fiscal policy refer to the two most widely recognized tools used to influence a nation's economic activity. Monetary policy is primarily concerned with the management of interest rates and the total supply of money in circulation and is generally carried out by central banks such as the RBI. Fiscal policy is the collective term for the taxing and spending actions of governments. In the United States, the national fiscal policy is determined by the executive and legislative branches of the government.

Monetary Policy: Central banks have typically used monetary policy to either stimulate an economy or to check its growth. The theory is that, by incentivizing individuals and businesses to borrow and spend, monetary policy can spur economic activity. Conversely, by restricting spending and incentivizing savings, monetary policy can act as a brake on inflation and other issues associated with an overheated economy.

The Reserve bank, also known as the "**RBI**," has frequently used three different policy tools to influence the economy: opening market operations, changing reserve requirements for banks and setting the discount rate.

Open market operations are carried out on a daily basis where the GoI buys and sells government bonds to either inject money into the economy or pull money out of circulation. By setting the reserve ratio, or the percentage of deposits that banks are required to keep in reserve, the RBI directly influences the amount of money created when banks make loans. The RBI can also target changes in the discount rate (the interest rate it charges on loans it makes to financial institutions), which is intended to impact short-term interest rates across the entire economy.

Fiscal Policy: Generally speaking, the aim of most government fiscal policies is to target the total level of spending, the total composition of spending, or both in an economy. The two most widely used means of affecting fiscal policy are changes in government spending policies or in government tax policies.

If a government believes there is not enough business activity in an economy, it can increase the amount of money it spends, often referred to as "stimulus" spending. If there are not enough tax receipts to pay for the spending increases, governments borrow money by issuing debt securities such as government bonds and, in the process, accumulate debt; this is referred to as deficit spending.

By increasing taxes, governments pull money out of the economy and slow business activity. But typically, fiscal policy is used when the government seeks to stimulate the economy. It might lower taxes or offer tax rebates, in an effort to encourage economic growth. Influencing economic outcomes via fiscal policy is one of the core tenets of Keynesian economics.

When a government spends money or changes tax policy, it must choose where to spend or what to tax. In doing so, government fiscal policy can target specific communities, industries, investments, or commodities to either favor or discourage production – and sometimes, its actions based on considerations that are not entirely economic. For this reason, the numerous fiscal policy tools are often hotly debated among economists and political observers.

Similarities and differences between Fiscal and Monetary Policy

	Monetary Policy	Fiscal Policy
Tool	Interest rates	Tax and government spending
Effect	Cost of borrowing/mortgages	Budget deficit
Distribution	Higher interest rates hit homeowners but benefit savers	Depends which taxes you raise.
Exchange rate	Higher interest rates cause appreciation	No effect on exchange rate
Supply-side	Limited impact	Higher taxes may affect incentives to work
Politics	Monetary policy set by independent Central Bank	Changing tax and government spending highly political.
Liquidity trap	Cuts in interest rates may not work in liquidity trap	Fiscal policy advised in very deep recessions

RBI: Role and functions: The Reserve Bank of India is the central bank of India, was established on April 1, 1935 during the British-Raj in accordance with the provisions of the Reserve Bank of India Act, 1934. The Reserve Bank of India was set up on the recommendations of the Hilton Young Commission. The commission submitted its report in the year 1926, though the bank was not set up for nine years. The Central Office of the Reserve Bank was initially established in Kolkata, Bengal, but was permanently moved to Mumbai in 1937. Though originally privately owned, the RBI has been fully owned by the Government of India since nationalization in 1949. The Preamble of the Reserve Bank of India describes the basic functions of the Reserve

Bank as to regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage.

The Reserve Bank of India performs various traditional central banking functions as well as undertakes different promotional and developmental measures to meet the dynamic requirements of the Indian economy.

Role of RBI in Economic Development

1. Development of banking system
2. Development of financial institutions
3. Development of backward areas
4. Economic stability
5. Economic growth
6. Proper interest rate structure

Promotional Role of RBI

1. Promotion of commercial banking
2. Promotion of cooperative banking
3. Promotion of industrial finance
4. Promotion of export finance
5. Promotion of credit to weaker sections
6. Promotion of credit guarantees
7. Promotion of differential rate of interest scheme
8. Promotion of credit to priority sections including rural & agricultural sector

Functions of Reserve Bank of India

1. **Monetary Authority:** It controls the supply of money in the economy to stabilize exchange rate, maintain healthy balance of payment, attain financial stability, control inflation, strengthen banking system
2. **The issuer of currency:** The objective is to maintain the currency and credit system of the country to maintain the reserves. It has the sole authority in India to issue currency. It also takes action to control the circulation of fake currency.
3. **The issuer of Banking License:** As per Sec 22 of Banking Regulation Act, every bank has to obtain a Banking license from RBI to conduct banking business in India.
4. **Banker's to the Government:** It acts as banker both to the central and the state governments. It provides short-term credit. It manages all new issues of government loans, servicing the government debt outstanding and nurturing the market for government's securities. It advises the government on banking and financial subjects.
5. **Banker's Bank:** RBI is the bank of all banks in India as it provides the loan to banks/bankers, accept the deposit of banks, and rediscount the bills of banks.
6. **Lender of last resort:** The banks can borrow from the RBI by keeping eligible securities as collateral at the time of need or crisis.
7. **Banker and debt manager of government:** RBI keeps deposits of Governments free of interest, receives and makes payment, carry exchange remittances, and help to float new loans and manage public debt, act as an advisor to Government.
8. **Money supply and Controller of Credit:** To control demand and supply of money in Economy by Open Market Operations, Credit Ceiling, etc. RBI has to meet the credit requirements of the rest of the banking system. It needs to maintain price stability and a high rate of economic growth.
9. **Act as clearinghouse:** For settlement of banking transactions, RBI manages 14 clearing houses. It facilitates the exchange of instruments and processing of payment instructions.
10. **Manager of foreign exchange:** It acts as a custodian of FOREX. It administers and enforces the provision of Foreign Exchange Management Act (FEMA), 1999. RBI buys and sells foreign currency to maintain the exchange rate of Indian rupee v/s foreign currencies.
11. **Regulator of Economy:** It controls the money supply in the system, monitors different key indicators like GDP, Inflation, etc.
12. **Managing Government securities:** RBI administers investments in institutions when they invest specified minimum proportions of their total assets/liabilities in government securities.

13. **Regulator and Supervisor of Payment and Settlement systems:** The Payment and Settlement systems Act of 2007 (PSS Act) gives RBI oversight authority for the payment and settlement systems in the country. RBI focuses on the development and functioning of safe, secure and efficient payment and settlement mechanisms.
14. **Developmental Role:** This role includes the development of the quality of banking system in India and ensuring that credit is available to the productive sectors of the economy. It provides a wide range of promotional functions to support national objectives. It also includes establishing institutions designed to build the country's financial infrastructure. It also helps in expanding access to affordable financial services and promoting financial education and literacy
15. **Publisher of monetary data and other data:** RBI maintains and provides all essential banking and other economic data, formulating and critically evaluating the economic policies in India. RBI collects, collates and publishes data regularly.
16. **Exchange manager and controller:** RBI represents India as a member of the International Monetary Fund [IMF]. Most commercial banks are authorized dealers of RBI
17. **Banking Ombudsman Scheme:** RBI introduced the Banking Ombudsman Scheme in 1995. Under this scheme, the complainants can file their complaints in any form, including online and can also appeal to the RBI against the awards and the other decisions of the Banking Ombudsman
18. **Banking Codes and Standards Board of India:** To measure the performance of banks against Codes and standards based on established global practices, the RBI set up the Banking Codes and Standards Board of India (BCSBI).

Regulations Related to Capital Markets

Regulations are very important for the growth of capital markets all through the world. The development of a market economy is dependent on the growth of the capital market. The regulation of a capital market encompasses the regulation of securities. These rules enable the capital market to function more competently and fairly.

A well regulated market has the prospective to boost additional investors to participate, and contribute in, promoting the development of the economy.

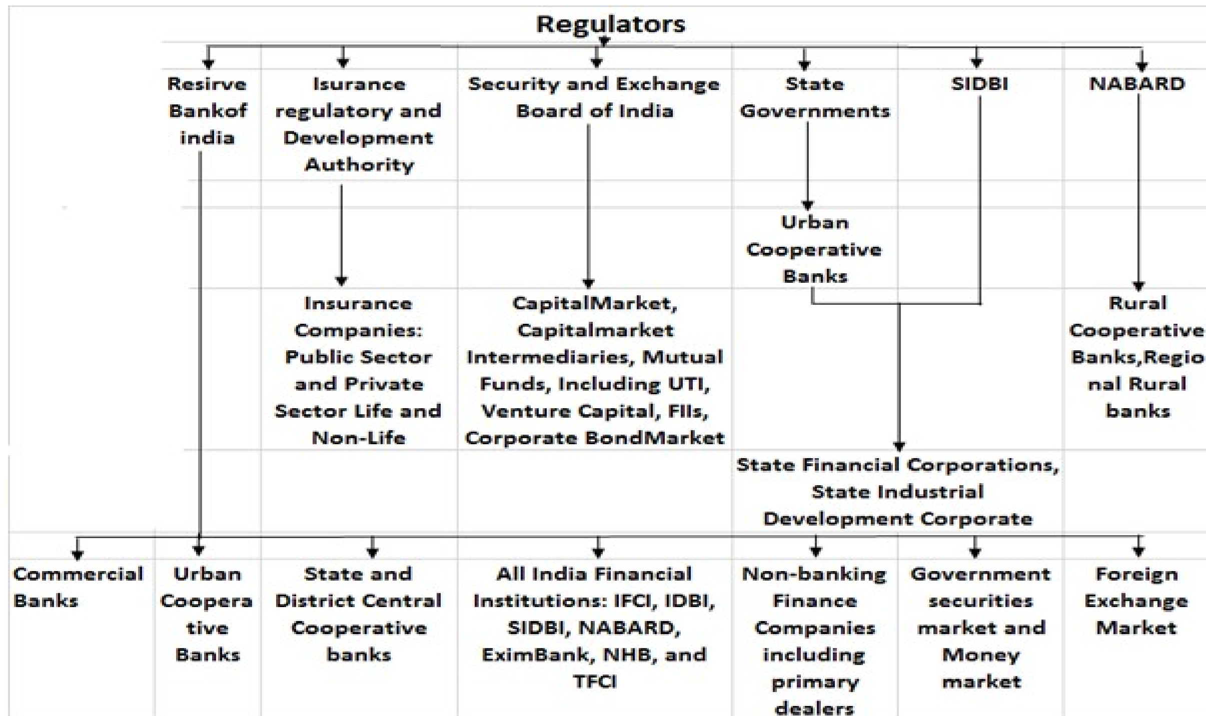
Capital Market Regulatory Authorities Worldwide: The chief capital market regulatory authorities worldwide are as follows:

- Securities and Exchange Board of India
- U.S. Securities and Exchange Commission
- Canadian Securities Administrators, Canada
- Australian Securities and Investments Commission
- Securities and Exchange Commission, Pakistan
- Securities and Exchange Commission, Bangladesh
- Securities and Exchange Surveillance Commission
- Securities and Futures Commission, Hong Kong
- Financial Supervision Authority, Finland
- Financial Supervision Commission, Bulgaria
- Financial Services Authority, UK
- Commission Nacional del Mercado de Valores, Spain
- Authority of Financial Markets

It has been well established that there is a growing network of financial intermediaries that operate in a highly competitive environment while being directed by strict norms. India has one of the most refined new equity issuance markets. Disclosure requirements and the accounting policies followed by listed companies to offer financial information are comparable to the best systems in the world. In Indian scenario, the securities market is regulated by various agencies such as department of economic affairs, department of company affairs, and the reserve bank of India. The capital markets and protection of investor's interest is now primarily the responsibility of the **Securities and Exchange Board of India (SEBI)**, which is located in Bombay. The activities of these agencies are coordinated by high level committee on capital and financial market. The high level coordinated committee for financial market discusses various policy level issues which require inter regularity coordination between the regulators in financial market such as RBI, SEBI, insurance, regulatory and development authority (IRDA) and pension regulatory and development authority. The committee is chaired by

Governor, RBI, secretary minister of finance, chairman SEBI, chairman IRDA, and chairman, PRDA are members of committee.

The capital market is market of equity and debt securities is regulated by Securities and Exchange Board of India (SEBI). Securities and Exchange Board of India (SEBI) has full autonomy and authority to regulate and develop capital market. The government has framed rules under securities controls act, the SEBI act and depositories act.



SEBI's functions include:

1. Regulating the business in stock exchange and any other securities markets.
2. Registering and regulating the working of collective investment schemes, including mutual funds.
3. Barring fraudulent and unfair trade practices relating to securities markets.
4. Promoting investor's education and training of intermediaries of securities markets.
5. Prohibiting insider trading in securities, with the imposition of monetary penalties, on erring market intermediaries.
6. Regulating substantial acquisition of shares and takeover of companies.
7. Calling for information from, carrying out inspection, conducting inquiries and audits of the stock exchanges and intermediaries and self-regulatory organizations in the securities market.

To summarize, Capital market is controlled by financial supervisors and their own governance organization. Major grounds of regulation are to keep investors away from scam and deception. Financial regulatory organizations are also charged with decreasing the losing rate of financial, providing licenses to financial service providers, and executing applicable regulations.

Role of SEBI and working of stock Exchanges

The Securities and Exchange Board of India (SEBI) is the regulator for the securities market in India. It was established in 1988 and given statutory powers on 30 January 1992 through the SEBI Act, 1992.

Initially SEBI was a non statutory body without any statutory power. However, in 1992, the SEBI was given additional statutory power by the Government of India through an amendment to the Securities and Exchange Board of India Act, 1992. In April 1988 the SEBI was constituted as the regulator of capital markets in India under a resolution of the Government of India.

Its main objective was to promote orderly and healthy growth of securities and to provide protection to the investors.

Role of SEBI: The main objective is to create such an environment which facilitates efficient mobilization and allocation of resources through the securities market. This environment consists of rules and regulations, policy framework, practices and infrastructures to meet the needs of three groups which mainly constitute the market i.e. issuers of securities (companies), the investors and the market intermediaries.

(i) To the Issuers: SEBI aims to provide a market place to the issuers where they can confidently look forward to raise the required amount of funds in an easy and efficient manner.

(ii) To the Investors: SEBI aims to protect the right and interest of the investors by providing adequate, accurate and authentic information on a regular basis.

(iii) To the Intermediaries: In order to enable the intermediaries to provide better service to the investors and the issuers, SEBI provides a competitive, professionalized and expanding market to them having adequate and efficient infrastructure.

Stock Exchanges: The secondary tier of the capital market is what we call the stock market or the stock exchange. The stock exchange is a virtual market where buyers and sellers trade in existing securities. It is a market hosted by an institute or any such government body where shares, stocks, debentures, bonds, futures, options etc are traded. A stock exchange is a meeting place for buyers and sellers. These can be brokers, agents, individuals. The price of the commodity is decided by the rules of demand and supply. In India, the most prominent stock exchange is the Bombay Stock Exchange. There are a total of twenty-one stock exchanges in India.

How Does the Stock Market Work?

If the thought of investing in the stock market scares you, you are not alone. Individuals with very limited experience in stock investing are either terrified by horror stories of the average investor losing 50% of their portfolio value – for example, in the two bear markets that have already occurred in this millennium – or are beguiled by “hot tips” that bear the promise of huge rewards but seldom pay off. It is not surprising, then, that the pendulum of investment sentiment is said to swing between fear and greed.

The reality is that investing in the stock market carries risk, but when approached in a disciplined manner, it is one of the most efficient ways to build up one’s net worth. While the value of one’s home typically accounts for most of the net worth of the average individual, most of the affluent and very rich generally have the majority of their wealth invested in stocks. In order to understand the mechanics of the stock market, let’s begin by delving into the definition of a stock and its different types.

Functions of the Stock Exchange

Liquidity and Marketability: One of the main drawing factors of the stock exchange is that it enables high liquidity. The securities can be sold at a moment’s notice and be converted to cash. It is a continuous market and the investors can divest and reinvest with ease as per their wishes.

Price Determination: In a secondary market, the only way to determine the price of securities in via the rules of supply and demand. A stock exchange enables this process via constant valuation of all the securities. Such prices of shares of various companies can be tracked via the index we call the Sensex.

Safety: The government strictly governs and regulates the stock exchanges. In case of the BSE, the Securities Board of India is the governing body. All the transactions occur within the legal framework. This provides the investor with assurances and a safe place to transact in securities.

Contribution to the Economy: As we know the stock exchange deals in already issued securities. But these securities are continuously sold and resold and so on. This allows the funds to be mobilized and channelised instead of sitting idle. This boosts the economy.

Spreading of Equity: The stock exchange ensures wider ownership of securities. It actually educates the public about the safety and the benefits of investing in the stock market. It ensures a better quality of transactions and smooth functioning. The idea is to get more public investors and spread the ownership of securities for the benefit of everyone.

Speculation: One often hears that the stock exchange is a speculative market. And while this is true, the speculation is kept within the legal framework. For the stake of liquidity and price determination, a healthy dose of speculative trading is necessary, and the stock exchange provides us with such a platform.

UNIT-3

Social and Cultural Environment Nature

The social environment consists of the sum total of a society's beliefs, customs, practices and behaviors. It is, to a large extent, an artificial construct that can be contrasted with the natural environment in which we live.

Every society constructs its own social environment. Some of the customs, beliefs, practices and behaviors are similar across cultures, and some are not. For example, an American traveling to Britain will find many familiar practices but not so much if traveling to China.

This social environment created by a society-at-large in which a business functions can be referred to as its external social environment. If a business operates in a multicultural society, then the social external social environment is even more complicated because the environment will consist of diverse sub-populations with their own unique values, beliefs, and customs.

A business also has its own social environment. We can refer to this as its internal social environment, which is simply the customs, beliefs, practices, and behaviors within the confines of the business. A business has much more control over its internal social environment than it does with its external social environment.

Nature of social environment: The social environment, social context, socio-cultural context or milieu refers to the immediate physical and social setting in which people live or in which something happens or develops. It includes the culture that the individual was educated or lives in, and the people and institutions with whom they interact. The physical and social environment is a determining factor in active and healthy aging in place, being a central factor in the study of environmental gerontology. The interaction may be in person or through communication media, even anonymous or one-way, and may not imply equality of social status. Therefore, the social environment is a broader concept than that of social class or social circle.

Cultural environment: A cultural environment is a set of beliefs, practices, customs and behaviors that are found to be common to everyone that is living within a certain population. Cultural environments shape the way that every person develops, influencing ideologies and personalities. Cultural environments are determined by the culmination of many different aspects of culture that influence personal choices and behaviors.

Religious beliefs are an important building block of a specific cultural environment. For many cultures, a certain religion has been a critical part of everyday living for generations. Outsiders need to be aware of the customs and traditions related to specific religion in order to respectfully navigate a certain cultural environment.

Family and the relationship within the family are additional factors that determine a cultural environment. Many cultures are structured around families, while others promote individuality and self-sustainability. Like religion and family, language is the third most important element of a cultural environment. Outside of these components, educational and social systems affect the structure of a cultural environment. Social systems may determine customs or taboos that are important to a particular region, while education may determine what types of ideologies are publicly shared. When visiting a new country or region, it is important for visitors to understand the cultural environment in order to protect themselves from shame, embarrassment or the act of offending a stranger.

Characteristics of Culture

(1) Culture is social: Culture does not exist in isolation. It is a product of society. It develops through social interaction. No man can acquire culture without association with others. Man becomes a man only among men.

(2) Culture is shared: Culture is not something that an individual alone can possess. Culture in sociological sense is shared. For example, customs, traditions, beliefs, ideas, values, morale etc. are all shared by people of a group or society.

(3) Culture is learnt: Culture is not inborn. It is learnt. Culture is often called "learned ways of behaviour". Unlearned behaviour is not culture. But shaking hands, saying thanks' or 'namaskar', dressing etc. are cultural behaviour.

(4) Culture is transmissive: Culture is transmissive as it is transmitted from one generation to another. Language is the main vehicle of culture. Language in different form makes it possible for the present generation to understand the achievement of earlier generations. Transmission of culture may take place by imitation as well as by instruction.

(5) Culture is continuous and cumulative: Culture exists as a continuous process. In its historical growth it tends to become cumulative. Sociologist Linton called culture 'the social heritage' of man. It becomes difficult for us to imagine what society would be like without culture.

(6) Culture varies from society to society: Every society has a culture of its own. It differs from society to society. Culture of every society is unique to itself. Cultures are not uniform. Cultural elements like customs, traditions, morale, values, beliefs are not uniform everywhere. Culture varies from time to time also.

(7) Culture is dynamic: No culture ever remains constant or changeless. It is subject to slow but constant change. Culture is responsive to the changing conditions of the physical world. Hence culture is dynamic.

(8) Culture is gratifying: Culture provides proper opportunities for the satisfaction of our needs and desires. Our needs both biological and social are fulfilled in the cultural ways. Culture determines and guides various activities of man. Thus, culture is defined as the process through which human beings satisfy their wants.

Impact of foreign culture on Business: Doing business on the international plane presents many challenges because of a variety of factors which differ from one market to the other. These differences are basically informed by the environment of the host country, which is an often time different from that at home. One of the environmental factors that present such a challenge is culture.

Culture can be defined as complex construct that embodies a people's knowledge, morals, art, beliefs, customs, laws and other capabilities gathered by a community over time. The culture of the host country strongly impacts on the performance of a firm that engages in international business. Notable aspects of culture central to the conduct of international business include the social structure, religion, language and education. G4S, a company that has established itself in international business has had its fair share of challenges in this area.

Social Structure has to do with how society is socially organized. It could be looked at from the individual-group dimension, or from the social stratification dimension. Some societies consider an individual the pillar of social organization this is the scenario G4S encountered when it entered the American and most Western markets. The challenge here was how to install a sense of teamwork among employees. It was an uphill task for managers who had been socialized to believe in the superiority of teamwork, as individuals compete against each other for results. On the Japanese market however, the firm found that emphasis was on group, rather than individual performance. Though this is said to be the driving force behind the company's success in Japan, it is vilified for imbedding creativity, and is touted as a stumbling block to dynamism. This, indeed, is a challenge the firm has had to deal with.

Social stratification has to do with placing members of society in certain classes. There are those in the lower, middle and upper classes. Many times, this is borne out of one's family background, income or occupation. Those from the lower class only hope to move from that class to the upper one through a process called social mobility, which is in most cases done through education and job opportunities. When opportunities for mobility are suffocated, there is likely to be conflict between the classes; and in the job situation, between management and employees. Some societies have room for **social mobility**, while others do not. A country like Britain has less social mobility. As a result, there is always simmering tension between management and workers, which the firm has had to deal with from time to time. When industrial disputes become frequent, the firm finds doing business in the country quite expensive. Such a problem is not common in America, where social mobility is easy.

Traditional Values and its Impact:

Introduction to Values in Business: The value systems in societies differ considerably because the value systems are built through centuries. Japanese and Chinese ethical values differ considerably to Indian ones.

The main issues in ethics are: (1) The academic discipline of business ethics requires approval and support of industry in those countries.

(2) Equal treatment of technical and human resources in management. In Japan human resource is given more weightage.

(3) Social justice and efficiency should go hand in hand.

(4) In Japan ethical managements already in place since last two decades with emergence of large business houses and MNCs. In China the importance of business ethics is felt and being practiced under the conditions of contemporary market economy.

(5) Japanese consumers are more willing to support business that were identified as socially more responsible than Chinese.

(6) Chinese value economic aspects of business organisation whereas Japanese considered more about business conforming to legal and ethical standards.

(7) The culture has profound base on ethical management in each country.

Table 10.1 below gives the cultural differences between US, Japan and Indian in a tabular form.

TABLE 10.1

COMPARATIVE VALUES PROFILES

US Culture	Indian Culture	Japanese Culture
1) Individuals can influence future.	Life is pre-planned, human action is pre-determined.	Groupism.
2) I can change work to achieve objective commitment to organisations.	I need to adjust, human action is predetermined.	Homogeneity.
3) Data-based decisions and they are healthy.	Decisions flow from the experience and wisdom of authorities.	Confucian ethics.
4) I can disagree without being disagreeable.	Deference to age and seniority, suppression of negative feelings.	High educational levels.
5) Protestant ethic.	Joint family and authoritarian values.	Society values
6) Authentic collaboration.	Self-realisation.	

Some of the ethical values noticed in different countries are:

A) Japanese

- Loyalty of employees all through their life time
- Harmony and cooperation
- Courtesy and humility
- Gratitude
- National service through industry and hard work
- Struggle for betterment
- Adjustment and assimilation
- Groupism

B) American

- Belief in the 'best'
- All employees are important
- Informality
- Protestant ethics
- Go into details
- Critical mind contributors
- Importance to physical and economic growth

C) Chinese

- Loyalty
- Incentives and structure
- Service to society
- Believing mind
- Inner dignity
- Self actualisation
- Social confluence or collective efforts or consciousness
- Confucian ethics

Indian Value System: India has a place of pride in a strong ethical base. It needs to be rekindled by proper education to our young and budding managers. Indian ethico-moral discussions go back to three and half millennia when Vedas specified the ground rules of human existence and living. The ethical discussions and teaching continued all through Indian history though India was ruled by different emperors and foreign rulers.

The Upanishads, Puranas and Smritis continued the traditions. The values were put for popular use in great epics of Mahabharata and Ramayana. Bhagavad-Gita puts ethics in a clear and concise way. The epics give human dilemmas in every walk of life and attach importance to values in dealing all such issues. Kautilya's Arthashastra, Vishnu Sharma's Panchatantra, Hitopadesha, Neetishastra, Katha Saritsagar, Neeti Shataka, Somadev Neeti Sootra and many more works stress Indian ethos in different ways. Perhaps to attract readers these works are in story form, ornate, colourful and poetic giving an unparalled practical ethical values in them. The current ethical behaviour of Indian is an intimate mix of good textures of values taken from Vedantic, Jaina, Buddhist, Sikh and Sufi traditions. In recent past we have also added western values.

About 2½ millennia ago the roots of western ethical values started in Greece from Socrates, Plato and Aristotle. At about the same time Chinese got ethical base in Confucius. The Vedantic ethical values are spiritual, sacred and simple. The entire value system is put as 'Dharma' or righteousness in all what one does.

Some of ethical Vedantic principles as applied to modern business are:

- Treat people decently. Respect all stakeholders' opinions, background, privacy dignity and desire to grow.
- All people are having egos and selfish nature. Respect diversity.
- Companies or business is created to serve people and all stakeholders.
- Some are more intelligent and powerful but protect the weak.
- Look inside sitting alone and think is it right? Is it fair? Will it do good to all?
- Be good, do good to as many and as much.
- Mahabharata sums up importance of ethical behaviour in a sloka.

Ethical behaviour is important for a man. When a man goes down in ethical values, he will have no use of his money or his relatives and he has no reason to live. As noted above, ethics was and is a traditional subject in India. Vedantic ethics had spiritual approach, which is summed up in its entirety (what you do not wish unto you do not do it to others). Business ethics is a new branch of study giving ethic plus business combination in decision making processes in industry and commerce. Indian ethos was introduced in daily walk of life for everyone by various methods. Religious teachings, listening to Puranas, Kathas, Bhajans, Yoya, Pooja, Yajyas and the like are some examples where these remind time and again the essence of ethical behavior in a society. Over the centuries many of these became mechanical and ritualistic and lost the ethical touch in them.

The ethical standards set by emperor Ashoka is given in Box 10.1:

ETHICAL STANDARDS SET BY AN INDIAN EMPEROR IN 250 BC.

Emperor Ashoka is considered as one of the greatest rulers of his time (274 BC-232BC) ordered inscribing of edicts on rocks in many places in his kingdom as far as Afghanistan in the west to Bangladesh in the east and parts of Andhra Pradesh in the south, Girinar ,the first kingdom in Gujarat is today known as Junagadh. Ashoka ordered fourteen of his edicts on the rocks after the Kalinga war. The Girnar forest stone edict which can be read even today speaks about the values propagated by the emperor – non-violence, co-existance of different religions and irrigation schemes. The inscriptions are in Brahmi script in Pali language. In the edict it says 'It is easy to indulge in sinful acts, but difficult to do good to others,But I have done so much welfare activities and hope that my sons and grandchildren will keep up the same tradition.' The edicts and the rule of the emperor is an example of high level of ethical standards achieved in 2nd BC in India.

BOX 10.1: THE ETHICAL STANDARDS SET BY EMPEROR ASHOKA

Two other religions which had their origins in India are Jainism and Buddhism. Buddhism and Jainism stress the ethical behavior and non-violence in more stringent manner to the society. In fact 'The Digambar' sect of Jainism advocated no attachments of possession to any worldly goods.

Indian ancient texts give guidelines to ethical behaviour of a man in his daily life since days of Veda. The same principles apply to modern day business.

Some of the important ethical lessons are:

1. Foundation for a healthy business is sound morals and ethics.
2. For managers to be good decision makers and to stand up to temptation and pressures, he should have his own peace of mind, strength of will and ethics.
3. Selfishness and greed are source of evil that reduces ethical standards in an organisation.
4. Ethical levels should be built up from top down to curb lies, hurting, cheating or unethical acts.

The Table 10.2 below gives the difference between western management concepts and Indian ethos:

TABLE 10.2
COMPARISON OF MANAGEMENT CONCEPTS

Subject	Western Management Concept	IEM or Indian Ethos in Management
1) Belief	Profit oriented	Profit, human welfare
2) Guidance	Decisions guided by facts, brain work. No sympathy.	In addition to brain work, sad, inner feeling etc.
3) Decisions	By brain storming	By silence, single person (head of the family type)
4) Productivity	Related to plant capacity	Related to HR.
5) Planning	Result oriented	Strategy oriented
6) Motivation	For higher needs	For basic needs
7) Resources	Relies on external resources	Relies on internal resources
8) Company strength	Performance based	Leader based
9) Profit	Money based	Money, image, social work
10) Hygiene factor	Related to job only	Related to human aspects
11) Rights and duties	Rights primary, duties secondary	Duties first, rights rare or secondary
12) Marketing	By competence	By price variation, schemes
13) Organisation structure	Position based	Importance based
14) Growth	By competitive strengths	By influence, reservations, subsidies
15) Training	Skills	Values – discipline, responsibility etc.
16) Task	Set targets	Set examples.
17) Quality	Emphasis on machinery, facilities	Emphasis on human aspects.

Indian Values: Indian culture is much diversified because of varieties of customs, beliefs and many gods. It is difficult to find single culture at one place. Hinduism has much type of worship and festivals.

In tradition Indian has Vedantic, Buddhist, Jaina and Sikh traditions. India has also welcomed and absorbed good ethical lessons from Christian, Islamic and Parsi religions. The culture has enriched with diversity of outsiders. It is now a unity in diversity.

The important Vedantic values in Indian society valid even today are:

1. Showing respect to elders specially teachers
2. Not showing emotion outward
3. God fear in all walks of life. In any function Pooja or offering to God is made first before the work begins.
4. Marriage is made in heaven and is considered lifelong bond. Some consider it as bond even after death.
5. In recent years Indian household look western. These are outward looks, whereas the Vedantic culture flews in hearts and actions. Similarly Indian ethos had many changes when foreigners ruled India for many centuries but Vedantic identify and ethos remained intact.
6. Indian ethos were built and perfected long before others evolved them. Hence India contributed immensely in teaching ethical lessons to outside world with its classical books. The ethical thought process in Vedantic ethos starts with Vedas, Upanishads, Smritis and Puranas. These were told in many ways with day to day life in epics Ramayana, Mahabharata and Gita. The ethical values were told in story form in Panchatantra, Hitopdesha, Katha- Saritsagaf, Bhoja prabhand, Chanakya Neeti, Bliagavata, Sooktimuktavali, Neeti Shastra, Neeti Shataka Manusmuti and the like.
7. Sacred simplicity of four goals to a man.

a) Dharma – Righteousness

b) Artha – Creation of wealth

c) Kama – Desires and needs

d) Moksha – Liberation of the spiritual core.

8. The ethos in work life are:

a) Man's inner strength. Simple living

b) Holistic relationship between man and nature

c) Cooperation with each other

d) Yoga and meditation. That is excellence and concentration.

e) Spirit of sacrifice.

Internal orientation towards work as worship.

A holistic grasp of Indian values is stated by great Poet Kalidasa as Satyam-Shivam-Sundaram. The meaning and connection is shown in Fig. 10.1 below.

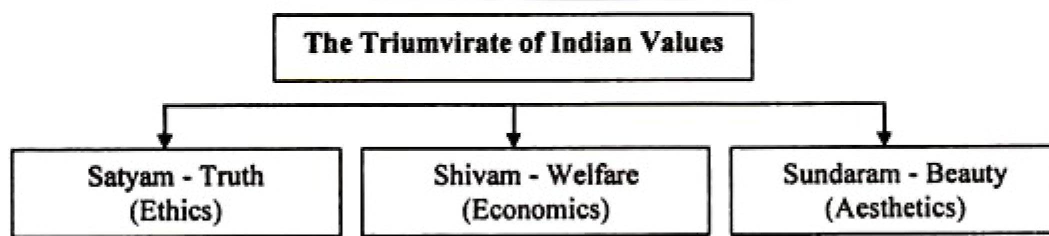


FIG. 10.1 : TRIUMVIRATE OF INDIAN VALUES

In Indian Vedantic system personality types have been suggested based on set of attributes.

The classification are:

1. a) Daivi or good attributes give Sattwa type of personality.
2. b) Rajas personality shows an angry and always busy type.
3. c) Tamas is always thinking negative doing such harmful work.

The classification of three types of personalities show hereunder the attributes of each type at Table 10.3.

TABLE 10.3
PERSONALITY TYPES ACCORDING TO VEDANTIC PRINCIPLES

SATTWA	RAJAS	TAMAS
Truthfulness	Jealously	Lust
Purity	Dynamism	Laziness
Forgiveness	Envy	Drowsiness
Compassion	Crookedness	Imagined enjoyment
Cooperation	Back-biting	Procrastination
Honesty	Anger	Action-less dreaming
Sacrifice	Cruelty	Postponing habit
Renunciation	Greed	Indolence
Patience	Covetousness	Thinking ill of others
Poise	Vanity	Action-less Rajas

Indian army has set itself high ethical standards in its policies and operations. These are built and perfected over for centuries. These apply to business environment. An article on the subject is given in box 10.2.

BUILDING ETHICS

The high level of transparency in the functioning of the Indian Army and other government and private organisations has created so much of scope to benefit from each other. The military as an organisation has very time tested ethos enabling it to keep its head very high, both during peace as well as war. The Army ethos has so much of applicability in any other government and civil organisation and the corporate sector in particular can benefit immensely from it. Today, the corporate world has so many challenges. It can immensely benefit from the Army ethos that stress on dedication, justice, equality and total commitment

A look at some of the Military Ethos

1) The first military ethos is to live and die for each other and this creates lot of esprit-de corps and camaraderie amongst everyone.
2) The second military ethos is to apply the principle of impartiality and justice to everyone across the board and this creates a lot of mutual trust and confidence amongst the soldiers of the Indian Army.
3) The third military ethos is to create a family feeling amongst everyone and this happens by respecting the religion, the tradition and the culture of each other. The principle of secularism is the root of the survival of the Indian Army. Everyone, irrespective of his caste, colour, and creed is a soldier and that is the only religion followed by everyone.
4) The fourth military ethos is to put the interest of the country at the top most level under any circumstance and then comes the welfare of the subordinates and the wel fare of the officers' class comes only at the last. This creates a total sense of patriotism and nationalism amongst everyone and very high level of officers-men relationship gets established.

Blending of Military Ethos in the Corporate Culture and Other Sectors

All above mentioned military ethos, if followed in letter and spirit, can further enhance the homogeneity and the integrity of the corporate sector and all other sectors. Ensuring of best mutual understanding and following the principle of impartiality and justice enhances the working

environment of any organisation. All the top and middle-level managers need to connect properly with their subordinates to understand them in totality and to get the maximum from them. The subordinates in any organisation only play up when they have full faith and confidence in their leaders. The real welfare of any subordinate is only ensured by giving him the best of his dues. Any kind of recruitment and promotion in the corporate world has to be based on the principle of meritocracy and impartiality. The maximum cohesion and integrity within an organisation has to be ensured to create a true family feeling. Today, the corporate world has so many challenges to meet and only the best of dedication and sincerity in all the team members can help it to achieve its targets. It is therefore very essential for the employees of the corporate world to treat their respective companies as their homes and to render their best of loyalties to achieve the maximum in such a competitive world. The time has come for the Army and the corporate world to exchange its ethos and culture with each other to achieve the best of intermingle. The issue of maintaining the best of security by every organisation & establishment of the Indian Army is very well understood and suitable mechanisms need to be devised to interact and exchange ideas and information with the corporate world and any other sector without compromising in this regard in any manner what so ever.

(Source; An article by Col Dr Kailash Chand, Director BIMHRD in The Economic Times dated 08-0302010 page 8)

BOX 10.2: BUILDING ETHICS

Social Audit and Social Responsibility of Business

Social Audit: A social audit is a formal review of a company's endeavors in social responsibility. A social audit looks at factors such as a company's record of charitable giving, volunteer activity, energy use, transparency, work environment, and worker pay and benefits, to evaluate what kind of social and environmental impact a company is having in the locations where it operates.

Social audits are optional. Companies can choose whether to perform them and whether to release the results publicly or only use them internally. A social audit is an internal examination of how a particular business is affecting a society. It serves as a way for a business to see if the actions being taken are being positively or negatively received and relates that information to the company's overall public image.

A social audit examines issues regarding internal practices or policies and how they affect the identified society. The activities included tend to pertain to the concepts of social responsibility. This can include activities affecting the financial stability of a region, any environmental impact resulting from standard operations and issues of transparency in reporting. There is no standard regarding what must be considered as the society during the audit. This allows a business to expand or contract the scope based on its goals. While one company may wish to understand the impact it has on a small-scale society, such as a particular city, others may choose to expand the range to include an entire state, country or the world as a whole.

Social Responsibility of Business: Social responsibility of business implies the obligations of the management of a business enterprise to protect the interests of the society. According to the concept of social responsibility the objective of managers for taking business decisions is not merely to maximize profits or shareholders' value but also to serve and protect the interests of other members of a society such as workers, consumers and the community as a whole.

Thus, Sachar Committee on Companies and MRTP Acts appointed by Government of India states, "In the development of corporate ethics we have reached a stage where the question of social responsibility of business to the community can no longer be scoffed at or taken lightly. In the environment of modern corporate economic development, the corporate sector no longer functions in isolation. If the plea of the companies that they are performing a social purpose is to be accepted, it can only be judged by the test of social responsiveness shown to the needs of the society".

But in today's world the interest of other stakeholders, community and environment must be protected and promoted. Social responsibility of business enterprises to the various stakeholders and society in general is considered to be the result of a social. Responsibility of Business Enterprises towards Stakeholders and Society in General contract.

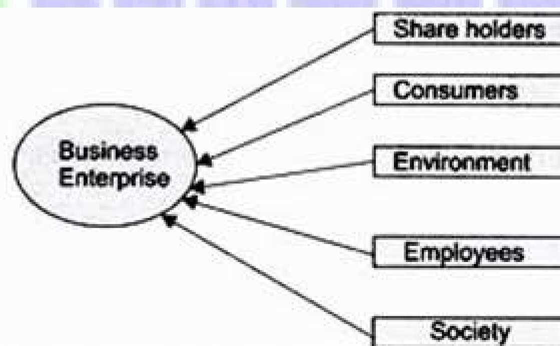


Fig. 3.1. *Responsibility of Business Enterprises towards Stakeholders and Society in General.*

Social contract is a set of rules that defines the agreed interrelationship between various elements of a society. The social contract often involves a quid pro quo (i.e. something given in exchange for another). In the social contract, one party to the contract gives something and expects a certain thing or behaviour pattern from the other.

In the present context the social contract is concerned with the relationship of a business enterprise with various stakeholders such as shareholders, employees, consumers, government and society in general. The business enterprises happen to have resources because society consisting of various stakeholders has given them this right and therefore it expects from them to use them to for serving the interests of all of them.

Though all stakeholders including the society in general are affected by the business activities of a corporate enterprise, managers may not acknowledge responsibility to them. Social responsibility of business implies that corporate managers must promote the interests of all stakeholders not merely of shareholders who happen to be the so called owners of the business enterprises.

1. Responsibility to Shareholders: In the context of good corporate governance, a corporate enterprise must recognise the rights of shareholders and protect their interests. It should respect shareholders' right to information and respect their right to submit proposals to vote and to ask questions at the annual general body meeting. The corporate enterprise should observe the best code of conduct in its dealings with the shareholders. However, the corporate Board and management try to increase profits or shareholders' value but in pursuing this objective, they should protect the interests of employees, consumers and other stakeholders. Its special responsibility is that in its efforts to increase profits or shareholders' value it should not pollute the environment.

2. Responsibility to Employees: The success of a business enterprise depends to a large extent on the morale of its employees. Employees make valuable contribution to the activities of a business organization. The corporate enterprise should have good and fair employment practices and industrial relations to enhance its productivity. It must recognise the rights of workers or employees to freedom of association and free collective bargaining. Besides, it should not discriminate between various employees. The most important responsibility of a corporate enterprise towards employees is the payment of fair wages to them and provides healthy and good working conditions. The business enterprises should recognise the need for providing essential labour welfare activities to their employees, especially they should take care of women workers. Besides, the enterprises should make arrangements for proper training and education of the workers to enhance their skills.

However, it may be noted that very few companies in India follow many of the above good practices. While the captains of Indian industries generally complain about low productivity of their employees, little has been done to address their problems. Ajith Nivard Cabraal rightly writes, "It should perhaps be realised that corporations can only be as effective and efficient as its employees and therefore steps should be taken to implement such reforms in a pro-active manner, rather than merely attempting to comply with many labour laws that prevail in the country. This is probably one area where good governance practices could make a significant impact on the country's business environment."

3. Responsibility to Consumers: Some economists think that consumer is a king who directs the business enterprises to produce goods and services to satisfy his wants. However, in the modern times this may not be strictly true but the companies must acknowledge their responsibilities to protect their interests in undertaking their productive activities. Invoking the notion of social contract, the management expert Peter Drucker observes, "The customer is the foundation of a business and keeps it in existence. He alone gives employment. To meet the wants and needs of a consumer, the society entrusts wealth-producing resources to the business enterprise". In view of above, the business enterprises should recognise the rights of consumers and understand their needs and wants and produce goods or services accordingly.

The following responsibilities of business enterprises to consumers are worth mentioning:

1. They should supply goods or services to the consumers at reasonable prices and do not try to exploit them by forming cartels. This is more relevant in case of business enterprises producing essential goods such as life-saving drugs, vegetable oil and essential' services such as electricity supply and telephone services.
2. They should not supply to the consumers' shoddy and unsafe products which may do harm to them.
3. They should provide the consumers the required after-sales services.
4. They should not misinform the consumers through inappropriate and misleading advertisements.
5. They should make arrangements for proper distribution system of their products so as to ensure that black-marketing and profiteering by traders do not occur.
6. They should acknowledge the rights of consumers to be heard and take necessary measures to redress their genuine grievances.

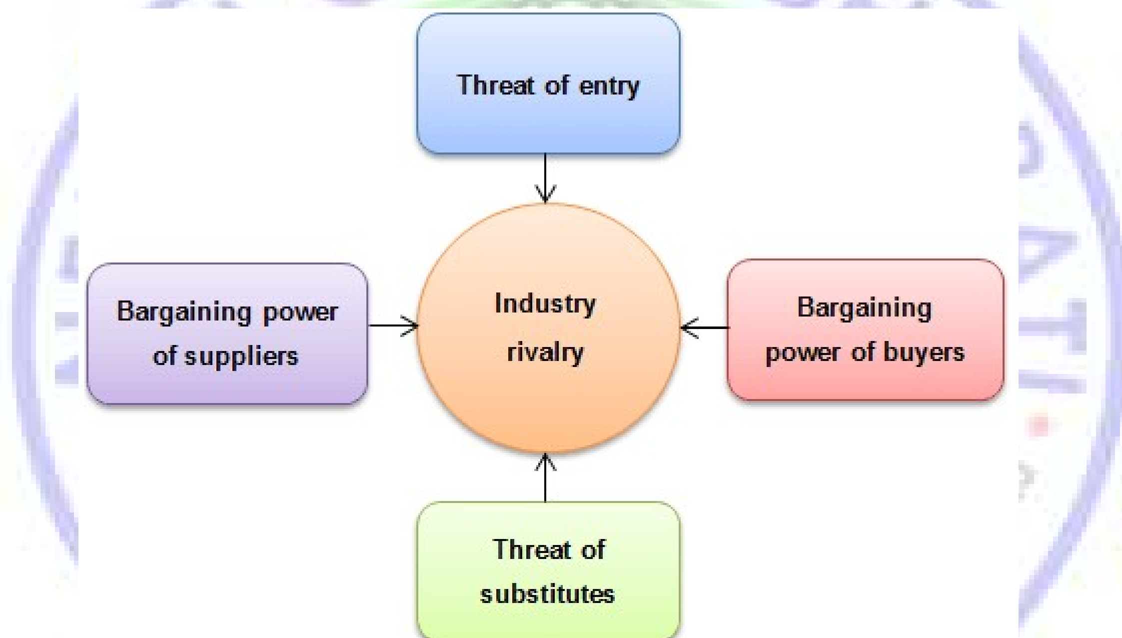
Competitive Environment: Meaning, Michael Porter's Five Forces Analysis

Competitive Environment: A competitive environment is the dynamic external system in which a business competes and functions. The more sellers of a similar product or service, the more competitive the environment in which you compete. Look at fast food restaurants – there are so many to choose from; the competition is high. However, if you look at airlines servicing Hawaii, very few actually fly to the islands. Direct competitors are businesses that are selling the same type of product or service as you. For example, McDonalds is a direct competitor with Burger King. Indirect competitors are businesses that still compete even though they sell a different service or product. The products or services offered by indirect competitors tend to be those that can be

substituted for one another. Again, considering travel, you have the option to travel by plane, train, or car. Therefore, airlines are also competing with train lines and buses (assuming the travel does not go overseas).

Examples: There are several examples of competitive business environments. The first that comes to mind is smart phones. How many choices do you have when it comes to buying a smart phone? They seemed to have multiplied overnight! That is an extremely competitive business environment. Companies are constantly trying to one-up the latest best-selling model – a good indication of a competitive environment. Additionally, prices of comparable smart phone models are relatively close. Another competitive business environment is the automobile industry. Again, almost every company produces a car in every category. Therefore, when someone is looking at buying a new hybrid sedan or full-size truck, they have so many options to choose from. Obviously, the automobile industry can be segmented in economical and luxury brands, but when comparing within the same segment, there is significant competition.

Michael Porter's Five Forces: Michael Porter's analysis of the competitive environment isn't complex. On the contrary, it's straightforward and easily understood. He proposes that competition in a given industry depends upon the interaction of five separate forces. How profitable or difficult the competitive environment may be varies widely among given industries. Producers of steel cans, for example, operate in a competitive environment which ensures that profits remain generally low. Other industries, such as manufacturers of soft drinks and toiletries, exist in competitive environments "where there is room for quite high returns."



(i) Threat of Entry: Competitors can arise from more than one area. In an industrialized economy, a company can make a strategic decision to enter an area for any number of reasons, among them: because the area is under-served, because profit margins are unusually high or because the entering company benefits from a patented process or product that gives them a unique advantage. It should be noted that these advantages aren't permanent. The shape of the competition changes nearly continuously. Porter observes that when Polaroid's instant photography patents expired, Kodak was well-equipped to enter the market. Writing in 1979, Porter couldn't have known that in a few years digitization would drive one company out of business and the other into Chapter 11. As it turned out, the most significant competition was a company that in 1979 sold a grand total of 35,000 relatively inexpensive hobby products worldwide. By 2017, Apple was the world's ninth largest company, with annual sales of $217 billion. Porter's analysis indicates that Apple's security is no greater than Polaroid's. Threats can come from anywhere, and are difficult to anticipate. In fact, Porter maintains that concentrating on future sources of competition rather than on present products is key for company survival.

(ii) Supplier Power: Porter points out that when there are only a few sources of supply but many buyers, suppliers will dominate and command a greater share of profits. China's strategy for solar panel cells is an example of a business strategy based on the expectation of driving prices down far enough that suppliers in countries with higher labor costs can't compete, eventually leaving China's solar industries as the predominating major supplier, at which point China will be able to control profits throughout the industry.

(iii) Buyer Power: In the reverse situation, where there are only a few buyers and many suppliers, buyers will dominate and will control supplier's profits. Apple, for instance, has more than 200 Chinese component suppliers for its iPhone. Competition among these suppliers for a single buyer has repeatedly driven down supplier prices to the point where workers have been mistreated and forced to work long hours without breaks under difficult conditions. Even FoxConn (Hon Hai Precision Industry) Apple's largest Asian supplier, has been caught using student interns and forcing them to work overtime without overtime pay in an effort to maintain market share. Apple has been criticized for the situation and has made some attempts to ensure equitable working conditions for workers in these factories, but as Porter might have predicted, when the supplier/buyer imbalance shifts in favor of the buyer to such an extreme, the resulting competition will drive prices down to a point where suppliers may believe that their survival depends on lowering prices below the point at which keeping the workplace equitable and humane for its workers is possible.

(iv) Threat of Substitutes: Another competitive threat comes from the availability of substitutes for a company's existing product. The pharmaceutical industry's attempts to devise strategies that hold off the entrance into the marketplace of generic drugs are an instance of a strategy opposing this threat. Sometimes, however, the substitute can come from an unpredictable place. The volume of first-class mail the U.S. Postal Service handles has declined dramatically since the introduction of email. Suppliers of components for gasoline and diesel-powered automobile engines may soon find that the coming proliferation of electric cars over the next decade or so threatens their industries with substitution of components for electric vehicles, whereas other suppliers have more experience and are better equipped to compete.

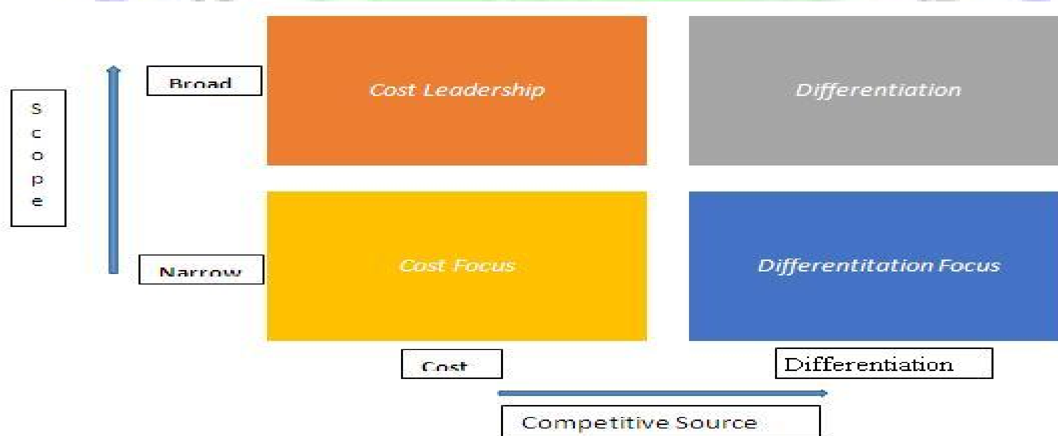
(v) Competitor Rivalry: Porter's fifth force is the cumulative effect of the first four. Competition can come from anywhere, from innovative new products, from the emergence of powerful new suppliers or buyers who control the marketplace, or from product substitutions made possible by deregulation, innovation or more cost efficient industrial processes, relying on innovative technology, a lower-cost labor force, or both.

Competitive Strategies

Competitive Strategy: Competitive Strategy is defined as the long term plan of a particular company in order to gain competitive advantage over its competitors in the industry. It is aimed at creating defensive position in an industry and generating a superior ROI (Return on Investment). Such type of strategies play a very important role when industry is very competitive and consumers are provided with almost similar products. One can take example of mobile phone market.

Types of Competitive Strategies by Porter

According to Michael Porter, competitive strategy is devised into 4 types:



1. **Cost Leadership:** Here, the objective of the firm is to become the lowest cost producer in the industry and is achieved by producing in large scale which enables the firm to attain economies of scale. High capacity utilization, good bargaining power, high technology implementation are some of factors necessary to achieve cost leadership. e.g Mi phones

2. **Differentiation Leadership:** Under this strategy, firm maintains unique features of its products in the market thus creating a differentiating factor. With this differentiation leadership, firms target to achieve market leadership. And firms charge a premium price for the products (due to high value added features). Superior brand and quality, major distribution channels, consistent promotional support etc. are the attributes of such products.E.g. BMW, Apple

3. **Cost focus:** Under this strategy, firm concentrates on specific market segments and keeps its products low priced in those segments. Such strategy helps firm to satisfy sufficient consumers and gain popularity. E.g. Sonata watches

4. **Differentiation focus:** Under this strategy, firm aims to differentiate itself from one or two competitors, again in specific segments only. This type of differentiation is made to meet demands of border customers who refrain from purchasing competitors' products only due to missing of small features. It is a clear niche marketing strategy. E.g. Titan watches . Without following anyone of above mentioned competitive strategies, it becomes very difficult for firms to sustain in competitive industry.

Examples of competitive strategy

There can be several examples based on the four parameters given by Michael Porter. Some examples are given below:

1. **Cost Leadership**: Mi smart phones and mobile phones are giving good quality products at an affordable price which contain all the features which a premium phone like Apple or Samsung offers
2. **Differentiation Leadership:** BMW offers cars which are different from other car brands. BMW cars are more technologically advanced, have better features and have got personalized services
3. **Cost focus:** Sonata watches are focused towards giving wrist watches at a low cost as compared to competitors like Rolex, Titan, Omega etc
4. **Differentiation focus:** Titan watches concentrates on premium segment which includes jewels in its watches.

Introduction to Industrial Policy Resolutions

Industrial Policy Resolution of 1956 is a resolution adopted by the Indian Parliament in April 1956. It was the first comprehensive statement on industrial development of India. The 1956 policy continued to constitute the basic economic policy for a long time. This fact has been confirmed in all the Five-Year Plans of India. According to this resolution the objective of the social and economic policy in India was the establishment of a socialistic pattern of society. It provided more powers to the governmental machinery. It laid down three categories of industries which were more sharply defined. These categories were:

Main Features of Industrial Policy Resolution of 1956: In a short period of operation of the 1948 Industrial Policy, some significant changes took place in the economic and political spheres that called for changes in industrial policy as well. The country hand launched a programme of planned economic development with the first five-year plan. The second five- year plan gave high priority to industrial development aimed at setting up a number of heavy industries such as steel plants, capital goods industries, etc., for which direct government participation and state involvement was needed. Further in December 1954, the Parliament adopted the 'Socialistic Pattern of Society' as the goal of economic policy which called for the state or the public sector to increase its sphere of activity in industrial sector and thus prevent concentration of economic power in private hands. In view of ail these developments, a new industrial policy was announced in April 1956. The main features of this Industrial Policy Resolution of 1956 were as follows:

1. **New Classification of industries**

The Industrial Policy of 1956 adopted the classification of industries into three categories viz.,

(i) Schedule A, which contained 17 Industries. All new units in these industries, such where their establishment in the private sector has ready been approved, would be set up only be the state.

(ii) Schedule B, which contained 12 industries, such industries would be progressively state owned, but private enterprise is expected to supplement the efforts of the state in these fields.

(iii) Schedule C, All remaining industries fell in this category; the future development of these industries had been left to the initiative and enterprise of the private sector.

2. **Assistance to Private Sector:** While the Industrial Policy of 1956 sought to give a dominant role to public sector, at the same time it assured a fair treatment to the private sector. The 'policy' said that the state would continue to strengthen and expand financial institutions that extend financial assistance to private industry and cooperative enterprises. The state would also strengthen infrastructure (power, transport etc.) to help private sector.

3. **Expanded role of Cottage and Small-Scale Industries:** The Industrial Policy of 1956 laid stress on the role of cottage and small scale industries for generating larger employment opportunities, making use of local manpower and resources and reducing- regional inequalities in industrial development. It stated that the Government would continue pursuing a policy of supporting such industries through tax concessions and subsidies.

4. **Balanced Industrial Growth among Various Regions:** The Industrial Policy, 1956 helped to reduce regional disparities in industrial development. The policy stated that facilities for development will be made available to industrially backward areas. The state, apart from setting up more public sector industries in these backward areas, will provide incentives such as tax concessions, subsidized loans etc., to the private sector to start industries in these backward regions.

5. **Role of Foreign Capital:** The industrial Policy 1956 recognized the important role of foreign capital in country's development. The foreign capital supplements domestic savings. Provides more resources for investment and relieves pressure on Balance of payments.

   The country therefore welcomed inflow of foreign capital. But the 'Policy' made it clear that inflow of foreign capital will be permitted subject to the condition that major share in management, ownership and control should be in the hands of Indians.

   6. Development of managerial and Technical Cadres: The Industrial Policy, 1956 notes that the programme of rapid industrialization in India will create large demand for managerial and technical personnel. Therefore, the policy emphasized the setting up and strengthening of institutions that Trans and provide such personnel. It was also announced that proper technical and managerial cadres in the public services are also being established.

7. **Incentives to labour:** The Industrial Policy, 1956 recognized the important role of labour as a partner in the task of development. The 'policy' therefore put emphasis on the provision of adequate incentives to workers and improvement in their working and service conditions. It laid down that wherever possible the workers should be progressively associated with that management so that they are enthusiastically involved in the development process.

UNIT-4

Natural and Technological Environment: Innovation

Natural Environment: The analysis of the mega environment must also cover aspects like extent of endowment of natural resources in the country, ecology, climate, etc. These constitute the natural environment.

Factors

(i) Natural Resources: Business firms depend on natural resources. The extent to which the country/region under reference is endowed with these resources has an impact on the functioning of the firms. Raw material is one major part of these resources and firms are concerned with their availability; they need to know whether there will be a shortage in any of the critical raw material. They also need to know the trends governing their costs. Besides raw materials, they are also concerned about energy, its availability as well as cost. Escalations in energy cost are of particular concern to any business firm.

(ii) Ecology: Firms are also concerned with ecology. In modern times, all societies are very much concerned about ecology, especially about issues like environmental pollution, protection of wild life and ocean wealth. Governments are becoming active bargainers in environmental issues. Business firms will have to know the nature and dimensions of environmental regulations and to what extent these factors will affect their business prospects. They also need to know the role of environmental activists in the region.

(iii) Climate: Climate is another aspect of the natural environment that is of interest to a business firm. Firms with products whose demand depends on climate, and firms depending on climate-dependent raw materials will be particularly concerned with this factor. These firms have to study the climate in-depth and decide their production locations and marketing territories appropriately.

In the case of India, the country is rich in natural resources like iron, coal, rare minerals, ocean wealth, etc. The country also receives good rainfall and has a strong network of rivers. As regards climate, the tropical climate in the country generally favors agriculture and industry.

Technology Environment: Today, technology is a major force which industry and business have to reckon with. Technology leads practically all the forces that shape peopleâ€™s lives. For a business firm, technology affects not only its final products but also its raw materials, processes and operations as well as its customer segments. In the present times, rapid changes are taking place in the realm of technology. The IT industry is one example. Telecom is another.

Factors

(i) Options available in technology: The firm has to analyze carefully the overall technology environment and the technology options available in the given industry. The level of technology prevailing generally in the country is also a concern for the firm. It has to assess the relative merits and cost-effectiveness of alternative technologies. It has also to analyze technological changes taking place in its industry at the international level. In addition, it has to assess the scope of substitute products emanating from new technologies.

(ii) Technology selection: It is possible that several levels of technologies are floating at the same time in an industry. Firms have to scan the technology environment and select technologies that will be appropriate for the firm and the given product-market situation.

They have to forecast technological trends, assess current and emerging technologies, and develop the inputs for right technology choice. The policy of the government on technology import is also a concern in this regard. India is adopting a fairly liberal approach to technology import. It is also at the same time encouraging efforts of internal technology development by all sections of Industry by giving them tax rebates and concessions.

Indian government is very much encouraging the generation of power from natural resources like wind, tidal waves, hydro, solar. Organic wastes etc., by giving the entrepreneurs 100% loans with long term tax holiday.

Innovation: The process of translating an idea or invention into a good or service that creates value or for which customers will pay. To be called an innovation, an idea must be replicable at an economical cost and must satisfy a specific need. Innovation involves deliberate application of information, imagination and initiative in deriving greater or different values from resources, and includes all processes by which new ideas are generated and converted into useful products. In business, innovation often results when ideas are applied by the company in order to further satisfy the needs and expectations of the customers.

Technological change cannot occur naturally or automatically because any change is neither easy nor natural in organizations. Decisions about technology and innovation are very strategic and need to be approached systematically.

Two generic strategies a company can use to position itself in the market are

(i) Low cost leader ship

(ii) Differentiation strategy

With low cost leadership strategy, a firm can maintain competitive advantage because its products have a lower cost than its competitors. With a differentiation strategy a firm can gain advantage from having a unique product or service for which customers are willing to pay a premium price. Technological innovations can support either of these strategies by providing

(i) Cost advantage through low-cost product designs and creating low-cost processes or methods to perform the needed operations.

(ii) Differentiation by unique products or services which increase buyer value and thus command premium prices.

In a social context, innovation helps create new methods for alliance creation, joint venturing, flexible work hours, and creation of buyers' purchasing power. Innovations are divided into two broad categories:

(i) Evolutionary innovations (continuous or dynamic evolutionary innovation) that are brought about by many incremental advances in technology or processes and

(ii) Revolutionary innovations (also called discontinuous innovations) which are often disruptive and new.

Innovation is synonymous with risk-taking and organizations that create revolutionary products or technologies take on the greatest risk because they create new markets.

Imitators take less risk because they will start with an innovator's product and take a more effective approach. Examples are IBM with its PC against Apple Computer, Compaq with its cheaper PC's against IBM, and Dell with its still-cheaper clones against Compaq.

Technological Leadership and Followership

Technology Leadership: Industry leaders are those companies which maintain their competitive positions through early development and application of new technologies. However technology leadership imposes costs and risks to the organizations which aspire for maintaining technological superiority or leadership.

Advantage of Technology leadership

(i) First-mover advantage

(ii) Little or no competition

(iii) Greater efficiency

(iv) Higher profit margins

(v) Sustainable advantage

(vi) Reputation for innovation

(vii) Establishment of entry barriers for competitors

(viii) Occupying of best market niches

(ix) Opportunities to learn

Disadvantage of Technology leadership

(i) Greater risks

(ii) Cost of technology development

(iii) Costs of market development and customer education

(iv) Infrastructure costs

(v) Costs of learning and eliminating defects

(vi) Possible cannibalization of existing products

Technology followership: Not all firms are equally prepared to be technology leaders, nor would leadership benefit each firm equally. Whether a firm chooses to be a technology leader or a follower depends on how the firm positions itself to compete, the benefits gained through the use of a technology and the characteristics of the firm.

Technology followership also can be used to support' both low-cost and differentiation strategies. The follower firm can learn from the experiences of the leader firm and can avoid the costs and risks associated with technological leadership, thereby helping to establish a low cost position. Followership can also support differentiation. The follower can learn from the leader and can adapt the products to more closely fit buyer's needs.

Impact of Technology on Globalization

Advancements in **technology** have considerably facilitated globalization. In fact technological progress has been one of the main forces driving globalization. Technological breakthroughs compel business enterprises to become global by increasing the economies of scale and the market size needed to break even.

Technological advancements reduce costs of transportation and communication across nations and thereby facilitate global sourcing of raw materials and other inputs. Patented technology encourages globalization as the firm owning the patent can exploit foreign markets without much competition.

Information technology has led to the emergence of the global village. For example, the World Wide Web has reduced the barriers of time and place in business dealings. Buyers and sellers can now make transactions at any time and any part of the globe. Technological change also affects investments.

Earlier, high **technology** production was limited to rich countries with high wages. Now technology is easily transferable to developing countries where high tech production can be combined with low wages. A large number of firms in advanced countries are now outsourcing labour intensive services from developing countries like India.

Technology has enabled globalization in almost every single facet. If you are interested in a great book on this there is one called "Connectography: Mapping the Future of Global Civilization".

Technology is the vital force in the modern form of business globalization. Technology has revolutionized the global economy and has become critical competitive strategy. It has globalized the world, which drive all the countries to more ethical standards. This paper attempts to show how Technology revolution is sweeping the globe and the transition from manual to electronic delivery of services both in public and private sector leads to advancement of business community throughout the world.

Globalization has lead to new markets and information technology is one of the technologies fostered to the new market in this increasing competitive world. Technology has helped us in overcoming the major hurdles of globalization and international trade such as trade barrier, lack of common ethical standard, transportation cost and delay in information exchange, thereby changing the market place.

Technology has enabled the software experts to work collaboratively over the network with companies from around the world. The technological advancement has helped a lot in creation and growth of global market. Multinational Corporations (MNC) can be seen as a central actor in globalization. Markets have become global at a rapid pace, as indicated by several kinds of trade extended to foreign countries. The innovation in host country is often undertaken by MNC based in one country and due to the technological advancement MNC(s) have expanded to other countries by some kinds of FDI also facilitating the movement of research and development.

The researchers have analyzed that though the technology has globalized the business but economically well developed countries have been more benefited. While technology has created many opportunities for global networks of tasks it is important to look at the friction in the system to understand the limitations. The sources of friction are many and could bring the system to its knees. Companies and countries that want to thrive in this era of globalization will seek to mitigate the abuses, while dealing with the friction.

Transfer of Technology, Time Lags in Technology Introduction

Technology Transfer, also called transfer of technology (TOT), is the process of transferring (disseminating) technology from the places and in groups of its origination to wider distribution among more people and places. It occurs along various axes: among universities, from universities to businesses, from large businesses to smaller ones, from governments to businesses, across borders, both formally and informally, and both openly and surreptitiously. Often it occurs by concerted effort to share skills, knowledge, technologies, methods of manufacturing, samples of manufacturing, and facilities among governments or universities and other institutions to ensure that scientific and technological developments are accessible to a wider range of users who can then further develop and exploit the technology into new products, processes, applications, materials, or services. It is closely related to (and may arguably be considered a subset of) knowledge transfer. Horizontal transfer is the movement of technologies from one area to another. At present transfer of technology (TOT) is primarily horizontal. Vertical transfer occurs when technologies are moved from applied research centers to research and development departments.

Whereas technology transfer can involve the dissemination of highly complex technology from capital-intensive origins to low-capital recipients (and can involve aspects of dependency and fragility of systems), it also can involve appropriate technology, not necessarily high-tech or expensive, that is better disseminated, yielding robustness and independence of systems.

Time Lags in Technology Introduction

There has been considerable time lag between countries in respect of introduction or absorption of technologies.

- In India the TV arrived very late. Although the color TV had become quite common in advanced countries. Even when the TV arrived and the telecast started, initially there was only black and white telecast.
- Even the cable TV came to India only by about the beginning of 1990s. The late introduction and slow expansion (even today) affected not only TV business but also the advertising industry and product promotion.

- The time lags in introduction of technologies may even result in some products not being able to reap the market.
- Another e.g., the electronic typewriter had become known to Indians before it could penetrate the market. It could not achieve the growth because of the advent of the computer.
- Because of this time lag in the advent of latest technology in India, many advance countries have considered us as a market for their obsolete technology. we even import second hand plant and machinery which is outdated machinery for the developed countries.
- Advancement in the technology of food processing, packaging and preservation, transportation etc have facilitated product improvement and marketability of the product.
- In the USA, it is researched that nearly 90% of the households are using microwave for preparing their evening meal and the latest microwaves will take hardly 15 minutes for preparing evening meal. In terms of packaging there is a tremendous move to microwave containers which offers the consumers the option of using the package as both the cooking and serving vessel.

Status of Technology in India; Management of Technology: In the recent years, rising income inequality and jobless growth have been subjects of discussion and debate. A February 2018 New World Wealth report claimed that India is the second-most 'unequal' country in the world, with millionaires controlling 54% of the wealth. In Japan, the most equal country, millionaires control only 22% of national wealth.

A closer look suggests that in India, gross fixed capital formation is falling. Growth in capital formation has fallen from a high of 17.5% during 2004-2008 to a lowly 4.3% during 2014-2016. A part of the fall in the value of investment has to do with lower input costs. Technology has ensured that inputs come at a cheaper price.

India accounts for about 10% of all expenditure on research and development in Asia and the number of scientific publications grew by 45% over the five years to 2007.[citation needed] However, according to former Indian science and technology minister Kapil Sibal, India is lagging in science and technology compared to developed countries. India has only 140 researchers per 1,000,000 population, compared to 4,651 in the United States. India invested US$3.7 billion in science and technology in 2002–2003. For comparison, China invested about four times more than India, while the United States invested approximately 75 times more than India on science and technology. The highest-ranked Indian university for engineering and technology in 2014 was the Indian Institute of Technology Bombay at number 16; natural science ranks lower.

In 2017, India became an associate member of European Organization for Nuclear Research.

Technology Management: Technology management is a set of management disciplines that allows organizations to manage their technological fundamentals to create competitive advantage. Typical concepts used in technology management are:

- Technology strategy (a logic or role of technology in organization),
- Technology forecasting (identification of possible relevant technologies for the organization, possibly through technology scouting),
- Technology roadmap (mapping technologies to business and market needs), and
- Technology project portfolio (a set of projects under development) and technology portfolio (a set of technologies in use).

The role of the technology management function in an organization is to understand the value of certain technology for the organization. Continuous development of technology is valuable as long as there is a value for the customer and therefore the technology management function in an organization should be able to argue when to invest on technology development and when to withdraw

While India has increased its output of scientific papers fourfold between 2000 and 2015 overtaking Russia and France in absolute number of papers per year, that rate has been exceeded by China and Brazil; Indian papers generate fewer cites than average, and relative to its population it has few scientists.

Features and Impact of Technology

Technology has important effects on business operations. No matter the size of your enterprise, technology has both tangible and intangible benefits that will help you make money and produce the results your customers demand. Technological infrastructure affects the culture, efficiency and relationships of a business. It also affects the security of confidential information and trade advantages.

Features of Technology

(i) COMMUNICATION WITH CUSTOMERS: First and foremost, technology affects a firm's ability to communicate with customers. In today's busy business environment, it is necessary for employees to interact with clients quickly and clearly. Websites allow customers to find answers to their questions after hours. Fast shipment options allow businesses to move products over a large geographic area. When customers use technology to interact with a business, the business benefits because better communication creates a stronger public image.

(ii) EFFICIENCY OF OPERATIONS: Technology also helps a business understand its cash flow needs and preserve precious resources such as time and physical space. Warehouse inventory technologies let business owners understand how best to manage the storage costs of holding a product. With proper technology in place, executives can save time and money by holding meetings over the Internet instead of at corporate headquarters.

(iii) BUSINESS CULTURE AND CLASS RELATIONS: Technology creates a team dynamic within a business because employees at different locations have better interactions. If factory managers can communicate with shipment coordinators at a different location, tensions and distrust are less likely to evolve. Cliques and social tensions can become a nightmare for a business; technology often helps workers put their different backgrounds aside.

(iv) SECURITY: Most businesses of the modern era are subject to security threats and vandalism. Technology can be used to protect financial data, confidential executive decisions and other proprietary information that leads to competitive advantages. Simply put, technology helps businesses keep their ideas away from their competition. By having computers with passwords, a business can ensure none of its forthcoming projects will be copied by the competition.

(v) RESEARCH CAPACITY: A business that has the technological capacity to research new opportunities will stay a step ahead of its competition. For a business to survive, it must

grow and acquire new opportunities. The Internet allows a business to virtually travel into new markets without the cost of an executive jet or the risks of creating a factory abroad.

Impact of Technology on a Business Environment

(i) Impact on Human Resources: Experts have long predicted technology will someday replace many of the jobs done by humans. However, history has shown that as jobs become obsolete, new opportunities open up. Today's students are encouraged to prepare for technology-based jobs like data analysis and computer programming, whereas four decades ago they would have been steered toward an education for an administrative or a sales position. Technology has also transformed hiring, with the internet allowing workers to complete their duties from home or another remote location. This has the added benefit of giving businesses access to a global talent pool that allows them to hire specialized, experienced workers at affordable rates.

(ii) Impact on Customer Outreach: Thanks to social media and the internet, reaching consumers is easier than ever. Using a do-it-yourself website tool and various social platforms, even the newest small business can post content that helps interested customers find them. Instead of paying third parties for advertising in print or electronic media, today's businesses are in charge of their own customer outreach. The result is a reduced cost that levels the playing field between large corporations and startups.

(iii) Impact on Operating Costs: Another area where the technological environment has evened things out is the overhead associated with running a business. Companies sell their items online, which means they don't need a brick-and-mortar storefront. The cost of starting a new business has dropped dramatically in recent years, since founders can now launch a venture from home as a side gig. There's no need to travel to land new clients, because researching and reaching out to potential customers can all be done online. And, instead of hiring a bookkeeper or an assistant, entrepreneurs find that software handles all of the early-stage functions they need.

(iv) Impact on Security: One area where the impact of technology on business has brought both positives and negatives is security. Having so much information on internet-connected servers means it's susceptible to theft. Data breaches can be devastating to a new business without the resources to handle it, with the average incident costing small businesses about $36,000. Businesses now need to put significant effort into securing their networks and all connected devices, which often means paying a monthly fee for top-tier cloud hosting and software to keep equipment safe. This has also opened up opportunities for tech specialists in the cyber security arena, where experts are in high demand.

(v) The Day to Day Impact on Business: Today's technology has completely changed some businesses as well as creating entire business niches that never even existed before. Business owners run their companies from laptops, tablets and smartphones, never even considering opening a brick-and-mortar presence. The daily environment in existing businesses has changed immensely, too. Office workers often spend part of their week working remotely from home or on the road. Business meetings no longer mean driving long distances as teleconferencing means getting everyone together online. Many offices are now paperless, keeping all their documents in the cloud, while others use online chat technology to keep teams in constant communication.

UNIT-5

International forces in Business Environment: The business environment is greatly influenced by global forces and trends that tend to define how organizations interact with customers and respond to competition. From advances in technology to religious fundamentalism, business culture has come to be defined by events dictated by these forces, leaving companies with little choice but adapt to their dynamics. Globalization has brought with it both uniformity and fierce competition. and businesses have to devise strategies that enhance compliance with prevailing market trends.

Focus on Sustainability and the Environment:In an effort to mitigate global warming, governments, manufacturing industries and small businesses worldwide are focusing on sustainability by encouraging environmentally friendly practices. Going green is a powerful global force that comes at a cost to small business. Every company product must have a stamp of approval proclaiming its production and disposal processes are green. The service industry must observe stringent environmental laws that add to administrative overheads. The net effect is a rise in production costs incurred by the manufacturing sector and the business community as a whole.

Advances in Technology:Advances in technology have led to the current global grid driven by one thing: information. Information technology is a strong force that continues to enhance communications in all sectors. Companies are wise to take advantage of various marketing platforms driven by the Internet, such as dedicated websites, social networks, smartphone apps and email. Small businesses are in a unique position to leverage the power of technology to expand their market base through affordable advertising on these media and reach a sizable number of potential customers.

Emerging Markets:One clear aspect of globalization has been the drive toward international commerce. Businesses are virtually interlinked, creating a powerful force in the form of a market without borders. As small business enterprises gain a global foothold, a contradiction emerges: on one end is market potential in various parts of the world; on the other, every financial catastrophe occurring in one part of the world reverberates globally. This is compounded by emerging markets that have seen an increase in manufacturing industries and buying power, and companies have to compete for raw materials and customers.

Cultural and Religious Ideologies

Differing ideologies can be a force that defines how businesses conduct their affairs. Ideologies seem to compete for people’s attention, time and resources. Whether political, cultural or religious, individuals hold strong convictions and are deeply committed to maintaining and defending them, sometimes by force and intimidation. Particularly for small businesses transacting outside the United States, ideologies often dictate how, when and where they conduct business; thus, they have to devise strategies for operating within this world setting. Some products or services may be decreed in some countries due to religious reasons, even if there is clear potential for the market.

SEZ, EPZ, GATT/ WTO

Special Economic Zone (SEZ): A special economic zone (SEZ) is an area in which business and trade laws are different from the rest of the country. SEZs are located within a country’s national borders, and their aims include: increased trade balance, increased investment, job creation and effective administration. To encourage businesses to set up in the zone, financial policies are introduced. These policies typically regard investing, taxation, trading, quotas, customs and labour regulations. Additionally, companies may be offered tax holidays, where upon establishing in a zone they are granted a period of lower taxation. The creation of special economic zones by the host country may be motivated by the desire to attract foreign direct investment (FDI). The benefits a company gains by being in a special economic zone may mean that it can produce and trade goods at a lower price, aimed at being globally competitive. In some countries the zones have been criticized for being little more than labor camps, with workers denied fundamental labor rights.

Modern SEZs appeared from the late 1950s in industrial countries. The first was in Shannon Airport in Clare, Ireland. From the 1970s onward, zones providing labour-intensive manufacturing have been established, starting in Latin America and East Asia. The first in China following the opening of China in 1979 by Deng Xiaoping was the Shenzhen Special Economic Zone, which encouraged foreign investment and simultaneously accelerated industrialization in this region. These zones attracted investment from multinational corporations.

SEZ in India: SEZs were introduced to India in 2000, following the already successful SEZ model used in China. Prior to their introduction, India relied on export processing zones (EPZs) which failed to make an impact on foreign investors. By 2005, all EPZs had been converted to SEZs. As of 2017, there are 221 SEZs in operation, with a further 194 approved for 2018. For developers to establish an SEZ in India, applications can be made to the Indian Board of Approval. Companies, partner firms and individuals may also apply by completing Form-A which is available on the Department of Commerce's website. There are four types of SEZs in India, which are categorized according to size: Multi-sector (1,000+ hectares); Sector-specific (100+ hectares); Free Trade & Warehousing Zone (FTWZ) (40+ hectares); and Tech, handicraft, non-conventional energy, gems & jewellery (10+ hectares).

Export Processing Zone (EPZ): An Export Processing Zone (EPZ) is a Customs area where one is allowed to import plant, machinery, equipment and material for the manufacture of export goods under security, without payment of duty. The imported goods are subject to customs control at importation, through the manufacturing process, to the time of sale/export, or duty payment for home consumption.

Advantage of an Export Processing Zone

It helps to boost the manufacturing sector the country and thus leading to the creation of job.

It helps to boost the GDP and individual income of a particular economy.

It helps to attract company to the particular country.

On the whole export processing zones help in welfare and development of a particular economy

Disadvantage of an Export Processing Zone

Many times companies dumb their goods in the domestic market which can lead to price wars and thus hampering the health of the domestic producer

Many companies also tend to dump their waste in the host country which can be detrimental to the environment of the country.

Recent trends in India

In the recent years the government has been particular to boost up the manufacturing sector of the country and thus many has launched many initiatives such as "Make in India "," Skill India" etc. The growth story has also been fueled by the creation of export processing zone in strategic location of the country.

Example of China

In the recent times China has been the manufacturing hub of the world. We have seen manufacturing companies from all over the globe having their manufacturing plants in China. This has not only been fuelled by the availability of cheap labour but also by the presence of a large no of export processing zones in the country. This has booted the GDP of the country and China has been achieving a double digit growth in the recent past.

General Agreement on Tariffs and Trade (GATT): General Agreement on Tariffs and Trade (GATT) was a legal agreement between many countries, whose overall purpose was to promote international trade by reducing or eliminating trade barriers such as tariffs or quotas. According to its preamble, its purpose was the "substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis."

It was first discussed during the United Nations Conference on Trade and Employment and was the outcome of the failure of negotiating governments to create the International Trade Organization (ITO). GATT was signed by 23 nations in Geneva on 30 October 1947, and took effect on 1 January 1948. It remained in effect until the signature by 123 nations in Marrakesh on 14 April 1994, of the Uruguay Round Agreements, which established the World Trade Organization (WTO) on 1 January 1995. The WTO is a successor to GATT, and the original GATT text (GATT 1947) is still in effect under the WTO framework, subject to the modifications of GATT 1994.

The World Trade Organization (WTO): The World Trade Organization (WTO) is an intergovernmental organization that regulates international trade. The WTO officially commenced on 1 January 1995 under the Marrakesh Agreement, signed by 124 nations on 15 April 1994, replacing the General Agreement on Tariffs and Trade (GATT), which commenced in 1948. It is the largest international economic organization in the world.

The WTO deals with regulation of trade in goods, services and intellectual property between participating countries by providing a framework for negotiating trade agreements and a dispute

resolution process aimed at enforcing participants' adherence to WTO agreements, which are signed by representatives of member governments and ratified by their parliaments.
The WTO prohibits discrimination between trading partners, but provides exceptions for environmental protection, national security, and other important goals. Trade-related disputes are resolved by independent judges at the WTO through a dispute resolution process.
Functions of the World Trade Organization
At the heart of the Organization are the WTO agreements, negotiated and signed by the bulk of the world's trading nations. The goal is to help producers of goods and services, exporters, and importers conduct their business. The WTO's overriding objective is to help trade flow smoothly, frets, fairly, and predictably.
With these objectives in mind, we can state the following six specific functions
(i) It shall facilitate the implementation, administration and operation of the WTO trade agreements, such as multilateral trade agreements, plurilateral trade agreements.
(ii) It shall provide forum for negotiations among its members concerning their multilateral trade relations.
(iii) It shall administer the 'Understanding on Rules and Procedures' so as to handle trade disputes.
(iv) It shall monitor national trade policies.
(v) It shall provide technical assistance and training for members of the developing countries.
(vi) It shall cooperate with various international organizations like the IMF and the WB with the aim of achieving greater coherence in global economic policy-making.
Globalization Meaning, Nature and stages of Globalization, features of Globalization

The aim of globalization is to secure socio- economic integration and development of all the people of the world through a free flow of goods, services, information, knowledge and people across all boundaries.
Globalization is seen as a conscious and active process of expanding business and trade across the borders of all the states. It stands for expanding cross-border facilities and economic linkages. This is to be done with a view to secure an integration of economic interests and activities of the people living in all parts of the world. The objective of making the world a truly inter-related, inter-dependent, developed global village governs the on-going process of globalization.
Globalization is the concept of securing real social economic, political and cultural transformation of the world into a real global community. It is considered to be the essential means for securing sustainable development of all the people of the world.
"Globalization represents the desire to move from national to a global sphere of economic and political activity". It seeks to transform the existing international economic system into a unified system of global economics. In the existing system, national economies are the major players. In the new system, the globalized economic and political activity will ensure sustainable development for the whole world.
"Globalization is both an active process of corporate expansion across borders and a structure of cross border facilities and economic linkages that has been steadily growing and changing." —Edward S.Herman
"Globalization is the process whereby social relations acquire relatively distance-less and borderless qualities." —Baylis and Smith
Nature of Globalization
Liberalization: It stands for the freedom of the entrepreneurs to establish any industry or trade or business venture, within their own countries or abroad.
Free trade : It stands for free flow of trade relations among all the nations. Each state grants MFN (most favored nation) status to other states and keeps its business and trade away from excessive and hard regulatory and protective regimes.
Globalization of Economic Activity: Economic activities are be governed both by the domestic market and also the world market. It stands for the process of integrating the domestic economy with world economies.
Liberalization of Import-Export System: It stands for liberating the import- export activity and securing a free flow of goods and services across borders.

Privatization: Keeping the state away from ownership of means of production and distribution and letting the free flow of industrial, trade and economic activity across borders.
Increased Collaborations: Encouraging the process of collaborations among the entrepreneurs with a view to secure rapid modernization, development and technological advancement.
Economic Reforms: Encouraging fiscal and financial reforms with a view to give strength to free world trade, free enterprise, and market forces.
Globalization accepts and advocates the value of free world trade, freedom of access to world markets and a free flow of investments across borders. It stands for integration and democratization of the world's culture, economy and infrastructure through global investments.
Typical Stages of the Globalization of Business Companies
"In the first stage of globalization, companies normally tend to focus on their domestic markets. They develop and strengthen their capabilities in some core areas.
In the second stage of globalization, companies begin to look at overseas markets more seriously but the orientation remains predominantly domestic. The various options a company has in this stage are exports, setting up warehouses abroad and establishing assembly lines in major markets. The company gets a better understanding of overseas markets at low risk, but without committing large amounts of resources.
In the third stage of globalization, the commitment to overseas markets increases. The company begins to take into account the differences across various markets to customize its products suitably. Different strategies are formed for different markets to maximize customer responsiveness. The company may set up overseas R&D centers and full-fledged country or region specific manufacturing facilities. This phase can be referred to as the multinational or multi-domestic phase. The different subsidiaries largely remain independent of each other and there is little coordination among the different units in the system."
In the final stage of globalization, the transnational corporation emerges. Here, the company takes into account both similarities and differences across different markets. Some activities are standardized across the globe while others are customized to suit the needs of individual markets. The firm attempts to combine global efficiencies, local responsiveness and sharing of knowledge across different subsidiaries.
8 Important Features of Globalization
Liberalization
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Free Trade
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Several dimensions of Globalization

Increased and Active Social, Economic and Cultural Linkages among the people. Globalization has social, economic, political cultural and technological dimensions. It involves all round inter-linkages among all the people of the world.
Free flow of knowledge, technology goods services and people across all societies is it key feature. It attempts at making geographical borders soft permitting all the people to develop their relations and links.
Globalization accepts and advocates the value of free world, free trade, freedom of access to world markets and a free flow of investments across borders. It stands for integration and democratization of the world's culture, economy and infrastructure through global investments.
Foreign Market entry strategies, LPG model

There are many ways in which a Company can find a route to an overseas market. There is no single market entry that works for all International markets. For many businesses direct exporting may be the best strategy while in another it may be suitable to set up a joint venture and in another it may be effective to license the manufacturing. Many factors will determine the choice of strategy, including, but not limited to, tariff rates, the degree to which you need to adapt your product, marketing and transportation costs. These factors may well increase cost to market but it would be expected that the increase in sales will offset these costs.
The following Market entry strategies can be regarded as the main options for companies:
Direct Exporting : The most common form of exporting, it's selling directly into the chosen market using your own resources initially. Many companies once they have established a sales programme turn to agents and/or distributors to represent them in that market. Distributors and Agents work closely with the company in representing the company's interests and it's critical that much time is spent in deciding the choice of agent / distributor. A good distributor / agent could transform chances of success in a chosen market and vice versa.
Acquisition of an Overseas Company : For some companies operating who want to enter a market the purchase of an existing business may be the most appropriate strategy. This may be because the company has large market share, may be a direct competitor or due to government regulation this is the only option for the company to enter the market. It will be certainly costly to acquire a business and determining the value of a company in a foreign market will require competent financial due diligence. The up-side is this market entry strategy will instantly provide the company with the standing of being a local company and will receive all the benefits of local knowledge, an established customer base and be treated by the local government as a local business.
Licensing: Licensing is quite a sophisticated arrangement where a firm transfers the rights to the use of a product or service to another company. It's a particularly beneficial if the purchaser of the license has a large share in the market that the company wants to enter. Licensing can be both for marketing or production.
Franchising: Very common in North America it's a process for rapid market expansion but it can be seen to be expanding globally. Franchising works particularly well for companies that have a good brand that has repeatable business. For example, food outlets which can be easily relocated into other markets. Two points of importance are required when considering using the franchise strategy. First, is that your business model should be unique or have a strong brand that can be leveraged internationally. The second is that you may run the risk of creating your future competition in your franchisee.
Joint Ventures: Joint Ventures are a particular form of partnership that involves creating a third independently managed company. Two companies agree to work together in a particular market, either geographic or product and create a third company to action this. Risks and profits are normally shared equally. Some good examples of a successful joint ventures are Sony/Ericsson the mobile phone company, Jaguar Land Rover sealed a joint venture with Chinese company Chery Automobile marking £1.1bn of investment into China.
Partnering: Partnering can be almost a necessity when companies enter certain foreign markets, for example Asia. Partnering can be a simple co-marketing arrangement or a sophisticated strategic alliance for manufacturing. Partnering can work well in those markets where the culture, both business and social is vastly different that the company's home market. The local partners will bring local market knowledge, contacts and even potential customers.

Turnkey Projects : Turnkey projects are normally associated to companies that provide services such as environmental consulting, architecture, construction and engineering. A turnkey project is where the facility is built from scratch and turned over to the customer and ready to go – turn the key and the factory is operational. This can be a good way to enter foreign markets as the customer is normally a government and often the project is being financed by an international financial agency such as the World Bank so the risk of not being paid is dramatically reduced.

Piggybacking: Piggybacking is a fairly unique method of entering the international marketplace. If a company has a particularly interesting and unique product or service that they sell to large domestic companies who operate on foreign markets, it may be worth approaching them to see if a product or service can be included in their sales portfolio for international markets. This reduces the risk and costs because you are essentially selling domestically and the larger company is marketing your product or service for the company internationally.

Greenfield Investments: Greenfield investments require the greatest involvement in international business. A greenfield investment is where a company purchases the land, builds the facility and operates the business on an ongoing basis in a foreign market. It's certainly the most costly option and holds the greatest risk but some markets may require companies to undertake the cost and risk due to government regulations, transportation costs and the ability to access technology or skilled labour.

Liberalization, Privatization, Globalization (LPG Model)

Liberalization: The basic aim of liberalization was to put an end to those restrictions which became hindrances in the development and growth of the nation. The loosening of government control in a country and when private sector companies' start working without or with fewer restrictions and government allow private players to expand for the growth of the country depicts liberalization in a country.

Objectives of Liberalization Policy

To increase competition amongst domestic industries.

To encourage foreign trade with other countries with regulated imports and exports.

Enhancement of foreign capital and technology.

To expand global market frontiers of the country.

To diminish the debt burden of the country.

Privatization: This is the second of the three policies of LPG. It is the increment of the dominating role of private sector companies and the reduced role of public sector companies. In other words, it is the reduction of ownership of the management of a government-owned enterprise. Government companies can be converted into private companies in two ways:

By Disinvestment

By Withdrawal of governmental ownership and management of public sector companies.

Forms of Privatization

Denationalization or Strategic Sale: When 100% government ownership of productive assets is transferred to the private sector players, the act is called denationalization.

Partial Privatization or Partial Sale: When private sector owns more than 50% but less than 100% ownership in a previously construed public sector company by transfer of shares, it is called partial privatization. Here the private sector owns the majority of shares. Consequently, the private sector possesses substantial control in the functioning and autonomy of the company.

Deficit Privatization or Token Privatization: When the government disinvests its share capital to an extent of 5-10% to meet the deficit in the budget is termed as deficit privatization.

Objectives of Privatization

Improve the financial situation of the government.

Reduce the workload of public sector companies.

Raise funds from disinvestment.

Increase the efficiency of government organizations.

Provide better and improved goods and services to the consumer.

Create healthy competition in the society.

Encouraging foreign direct investments (FDI) in India.

Globalization: It means to integrate the economy of one country with the global economy. During Globalization the main focus is on foreign trade & private and institutional foreign investment. It is the last policy of LPG to be implemented.

Globalization as a term has a very complex phenomenon. The main aim is to transform the world towards independence and integration of the world as a whole by setting various strategic policies. Globalization is attempting to create a borderless world, wherein the need of one country can be driven from across the globe and turning into one large economy.

Outsourcing as an Outcome of Globalization

The most important outcome of the globalization process is Outsourcing. During the outsourcing model, a company of a country hires a professional from some other country to get their work done, which was earlier conducted by their internal resource of their own country.

The best part of outsourcing is that the work can be done at a lower rate and from the superior source available anywhere in the world. Services like legal advice, marketing, technical support, etc. As the Information Technology has grown in the past few years, the outsourcing of contractual work from one country to another has grown tremendously. As a mode of communication has widened their reach, all economic activities have expanded globally.

Various Business Process Outsourcing companies or call centres, which have their model of a voice-based business process have developed in India. Activities like accounting and book-keeping services, clinical advice, banking services or even education are been outsourced from developed countries to India.

The most important advantage of outsourcing is that big multi-national corporate or even small enterprises can avail good services at a cheaper rate as compared to their country's standards. The skill set in India is considered most dynamic and effective across the world. Indian professionals are best at their work. The low wage rate and specialized personnel with high skills have made India the most favourable destination for global outsourcing in the later stage of reformation.

LPG Model in India: After Independence in 1947 Indian government faced a significant problem to develop the economy and to solve the issues. Considering the difficulties pertaining at that time government decided to follow LPG Model. The Growth Economics conditions of India at that time were not very good. This was because it did not have proper resources for the development, not regarding natural resources but financial and industrial development. At that time India needed the path of economic planning and for that used 'Five Year Plan' concept of which was taken from Russia and feet that it will provide a fast development like that of Russia, under the view of the socialistic pattern society. India had practiced some restrictions ever since the introduction of the first industrial policy resolution in 1948.

Liberalization is defined as making economics free to enter the market and establish their venture in the country. Privatization is defined as when the control of economic is sifted from public to a private hand. Globalization is described as the process by which regional economies, societies, and cultures have become integrated through a global network of communication, transportation, and trade.

MNCs: Definition, Meaning, Merits, Demerits

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

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

IBM computer and Pepsi-Cola from U.S.A., Siemens from Germany, Sony and Honda from Japan Philips from Holland etc., are some of the MNCs operating at international levels.

According to ILO report (i.e. International Labour Organization) "The essential nature of the multinational enterprises lies in the fact that its managerial headquarters are located in one country, while the enterprise carries out operations in number of other countries'.

Merits of MNCs: Economic Development: The Developing countries need both foreign capital and technology to make use of available resources for economic and industrial growth. MNCs can provide the required financial, technical and other resources to needy countries in exchange for economic gains.

Technology Gap: MNCs are the instruments of transfer of technology to the host country. Technology is necessary to bring down cost of production and produce quality goods on a large scale. The services of MNCs can be of great help to bridge the technological gab between developed and developing countries.

Industrial Growth: MNCs are dynamic and offer growth opportunities for domestic industries. MNCs assist local producers to enter the global markets through their well established international network of production and marketing. And there by ensure industrial growth.

Marketing Opportunities: MNCs have access to many markets in different countries. They have the necessary skills and expertise to market products at international level. For example, an Indian Company can enter into Joint Venture with a foreign company to sell its product in the international market.

Work Culture: MNCs introduces a work culture of excellence, professionalism and fairness in deals. The sole objective of Multinational is profit Maximation. To achieve this, the Multinationals use various strategies like product innovation, technology up gradation, professional management etc.

Export Promotion: MNCs assist developing countries in earnings foreign exchange. This can be done by promoting and developing export oriented and import substitute industries.

Research and Development: The resources and experience of MNCs in the field of research enables the host country to establish efficient research and development system. It is a fact that many MNCs are now shifting their research units to countries like India to avail of monetary incentives and cheap labour.

Demerits of MNCs : Problem of Technology: Technology developed by MNCs from developed countries does not fully fit in the needs of developing countries. This is because, such technology is mostly capital intensive.

Political Interference: The MNCs from developed countries are criticised for their interference in the political affairs of developing nations. Through their financial and other resources, they influence the decision-making process of the governments of developing nations.

Self-Interest: MNCs work towards their own self-interest rather than working for the development of host country. They are more interested in making profits at any cost.

Outflow of foreign Exchange: The working of MNC is a burden on the limited resources of developing countries. They charge high price in the form of commission and royalty paid by local subsidiary to its parent company. This leads to outflow of foreign exchange.

Exploitation: MNCs are criticised for exploiting the consumers and companies in the host country. MNCs are financially very strong and adopt aggressive marketing strategies to sell their products, adopt all means to eliminate competition and create monopoly in the market.

Investment: MNCs prefer to invest in areas of low risk and high profitability. Issues like social welfare, national priority do not find any place on the agenda of MNCs.

Artificial Demand: MNCs are criticised on the ground that they create artificial and unwarranted demand by making extensive use of the advertising and sales promotion techniques.

MNCs in India: Multinational Corporations (MNCs) or Transnational Corporation (TNC), or Multinational Enterprise (MNE) is a business unit which operates simultaneously in different countries of the world. In some cases the manufacturing unit may be in one country, while the marketing and investment may be in other country.

In other cases all the business operations are carried out in different countries, with the strategic head quarters in any part the world. The MNCs are huge business organizations which extend their business operations beyond the country of origin through a network of industries and marketing operations.

Multinational Corporations in India: MNCs have been operating in India even prior to Independence, like Singer, Parry, Philips, Unit- Lever, Proctor and Gamble. They either operated in the form of subsidiaries or entered into collaboration with Indian companies involving sale of technology as well as use of foreign brand names for the final products. The entry of MNCs in India was controlled by existing industrial policy statements, MRTP Act, and FERA. In the pre-reform period the operations of MNCs in India were restricted.

New Industrial Policy 1991 and Multinational Corporations

The New Industrial Policy 1991, removed the restrictions of entry to MNCs through various concessions. The amendment of FERA in 1993 provided further concession to MNCs in India.

At present MNCs in India can

(i) Increase foreign equity up to 51 percent by remittances in foreign exchange in specified high priority areas. Subsequently MNCs are free to own a majority share in equity in most products.

(ii) Borrow money or accept deposit without the permission of Reserve Bank of India.

(iii) Transfer shares from one non-resident to another non-resident.
(iv) Disinvest equity at market rates on stock exchanges.
(v) Go for 100 percent foreign equity through the automatic route in Specified sectors.
(vi) Deal in immovable properties in India.
(vii) Carry on in India any activity of trading, commercial or industrial except a very small negative list.
Thus, MNCs have been placed at par with Indian Companies and would not be subjected to any special restrictions under FERA.
Criticisms against MNCs in India
The operations of MNCs in India have been opposed on the following grounds:
(i) They are interested more on mergers and acquisitions and not on fresh projects.
(ii) They have raised very large part of their financial resources from within the country.
(iii) They supply second hand plant and machinery declared obsolete in their country.
(iv) They are mainly profit oriented and have short term focus on quick profits. National interests and problems are generally ignored.
(v) They use expatriate management and personnel rather than competitive Indian Management.
(vi) Though they collect most of the capital from within the country, they have repatriated huge profits to their mother country.
(vii) They make no effort to adopt an appropriate technology suitable to the needs. Moreover, transfer of technology proves very costly.
(viii) Once an MNC gains foothold in a venture, it tries to increase its holding in order to become a majority shareholder.
(ix) Further, once financial liberalizations are in place and free movement is allowed, MNCs can estabilize the economy.
(x) They prefer to participate in the production of mass consumption and non-essential items.
FDI Policy

Foreign Direct Investment (FDI): Foreign Direct Investment (FDI) is one of the most important sources of non-debt foreign investment flows in developing countries like India. After the announcement of New Industrial Policy, 1991 and the current policies of liberalization, India has been experiencing an acceleration in the flow of foreign investment into the country.
FDI Policy of Government of India : Government of India has taken various effective steps to simplify the Foreign Direct investment policy. The Foreign Direct Investment Policy (FDI Policy) of the Government of India prescribes the foreign investment cap in specified industrial sectors. But in the recent times many activities have been transferred to unrestricted sectors in which 100% Foreign Direct investment is permitted. Broadly, the industrial sectors are categorized as: Restricted, Prohibited , Unrestricted Sectors (Up to 100% foreign ownership) All the sectors other than those mentioned below subject to terms and conditions in the FDI policy come under unrestricted sectors for example: Mining (except Mining and mineral separation of titanium bearing minerals and ores, its value addition and integrated activities) Manufacturing related commercial activities Information Technology related activities E-commerce (permitted in marketplace model and not the inventory based model. Also, it applies only to Business to Business e-commerce and not business to consumer e-commerce) The Government of India embarked upon major economic reforms since mid-1991 with the intension of integrating with the world economy and to emerge as a significant, player in the globalization process. As a part of economic reforms, the government made necessary promotion of foreign direct investment.
As part of extant policy, FDI up to 100 per cent is allowed, under the automatic route, in most of the sectors or activities. FDI under the automatic route does not require prior approval either by the government or the RBI. Investors are only required to notify the regional office concerned of RBI within 30 days of receipt of inward remittances and file the required documents with that office within 30 days of issue of shares to foreign investors.
Under the government approval route, approvals for FDI proposals, other than Non-resident Indians, and proposals for FDI in ‘Singh Brand’ product retailing, and Multi-Brand Retail Trading (MBRT) are received in the Department of Economic Affaires.

Proposals for FDI in 'Singh Brand' product retailing, MB and by NRIs are received in the Department of Industrial Policy and Promotion. These proposals are then considered by the Foreign Investment Promotion Board (FIPB) which is housed in the Department of Economic Affaires.
Foreign investments in equity capital of an Indian Company under the port-folio Investment scheme are governed by separate regulations of RBI/securities and Exchanges Board of India (SEBI). The FDI policy has been extensively liberalized progressively through review of the policy on an ongoing basis and allowing FDI in more sectors under the automatic route. Three major reviews were undertaken on the year 2000, 2006 and 2007-08. A major policy stance defining indirect foreign investment was taken in 2009.