KLE LAW ACADEMY BELAGAVI

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STUDY MATERIAL

for

BUSINESS ENVRIONMENT

Prepared as per the syllabus prescribed by Karnataka State Law University (KSLU), Hubballi

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BUSINESS ENVIRONMENT

CONTENT

INTRODUCTION:

In common sense, the term business refers to buying and selling of goods. But in modern times, business covers a wide and complex field of industry and commerce involving complex activities related to both production and distribution. All these activities satisfy the diverse needs of the society and also help generate profit of business firms or units.

Thus by the term business we mean organized efforts of different enterprises for supplying various goods and services to the ultimate consumers for a profit. Business, in nutshell, includes diverse activities related to production, marketing, transport, trade, finance, banking, insurance, advertising and some other activities connected with industry and commerce.

Definition:

A business is an organization or entity that sells goods or services for a profit. The important part of this definition is that a business is something that operates in order to make a profit. Not all businesses actually are successful enough make a profit, but their main purpose is to generate profits.

James Stephenson-

Every human activity which is engaged in for the sake of earning profit may be called business..

L.H. Haney-

Human activity directed toward producing and acquiring wealth through buying and selling goods.

What Does Business Mean?

There are three mains legal forms a business can take: sole proprietorship, partnership, and corporation. Each of these legal forms has distinct characteristics as well as advantages and disadvantages.

Ten important characteristics of a business:

1. Economic activity:

Business is an economic activity of production and distribution of goods and services. It provides employment opportunities in different sectors like banking, insurance, transport, industries, trade etc. it is an economic activity corned with creation of utilities for the satisfaction of human wants. It provides a source of income to the society. Business results into generation of employment opportunities thereby leading to growth of the economy. It brings about industrial and economic development of the country.

2. Buying and Selling:

The basic activity of any business is trading. The business involves buying of raw material, plants and machinery, stationary, property etc. On the other hand, it sells the finished products to the consumers, wholesaler, retailer etc. Business makes available various goods and services to the different sections of the society.

3. Continuous process:

Business is not a single time activity. It is a continuous process of production and distribution of goods and services. A single transaction of trade cannot be termed as a business. A business should be conducted regularly in order to grow and gain regular returns. Business should continuously involve in research and developmental activities to gain competitive advantage. A continuous improvement strategy helps to increase profitability of the business firm.

4. Profit Motive:

Profit is an indicator of success and failure of business. It is the difference between income and expenses of the business. The primary goal of a business is usually to obtain the highest possible level of profit through the production and sale of goods and services. It is a return on investment.

Profit acts as a driving force behind all business activities. Profit is required for survival, growth and expansion of the business. It is clear that every business operates to earn profit. Business has many goals but profit making is the primary goal of every business. It is required to create economic growth.

5. Risk and Uncertainties:

Risk is defined as the effect of uncertainty arising on the objectives of the business. Risk is associated with every business. Business is exposed to two types of risk, Insurable and Non-insurable. Insurable risk is predictable.

Predictable factors are controllable to some extent, such as:

a) Taxes

b) Change in the volume of expected sales

c) Cost of supplies and equipment

d) Overhead costs

e) Salaries

f) Cost of goods and services offered

Unpredictable factors include:

a) Changes in trends and tastes of customers.

b) Impact of the local economy on customer base.

c) Any unexpected action taken by your competitors.

The calculation and management of the risk is vital to ensure the success of a business firm. Insurance and Risk management helps in minimizing the risk associated with the business.

6. Creative and Dynamic:

Modern business is creative and dynamic in nature. Business firm has to come out with creative ideas, approaches and concepts for production and distribution of goods and services. It means to bring things in fresh, new and inventive way. One has to be innovative because the business operates under constantly changing economic, social and technological environment. Business should also come out with new products to satisfy the growing needs of the consumers.

7. Customer satisfaction:

The phase of business has changed from traditional concept to modern concept. Now a day, business adopts a consumer-oriented approach. Customer satisfaction is the ultimate aim of all economic activities. Modern business believes in satisfying the customers by providing quality product at a reasonable price. It emphasize not only on profit but also on customer satisfaction. Consumers are satisfied only when they get real value for their purchase. The purpose of the business is to create and retain the customers. The ability to identify and satisfy the customers is the prime ingredient for the business success.

8. Social Activity:

Business is a socio-economic activity. Both business and society are interdependent. Modern business runs in the area of social responsibility. Business has some responsibility towards the society and in turn it needs the support of various social groups like investors, employees, customers, creditors etc. by making goods available to various sections of the society, business performs an important social function and meets social needs. Business needs support of different section of the society for its proper functioning.

9. Government control:

Business organisations are subject to government control. They have to follow certain rules and regulations enacted by the government. Government ensures that the business is conducted for social good by keeping effective supervision and control by enacting and amending laws and rules from time to time.

Some important acts framed by the government include:

i. The Competition Act, 2002

ii. Foreign Exchange Management Act, 1999

iii. The Environment Act, 1986

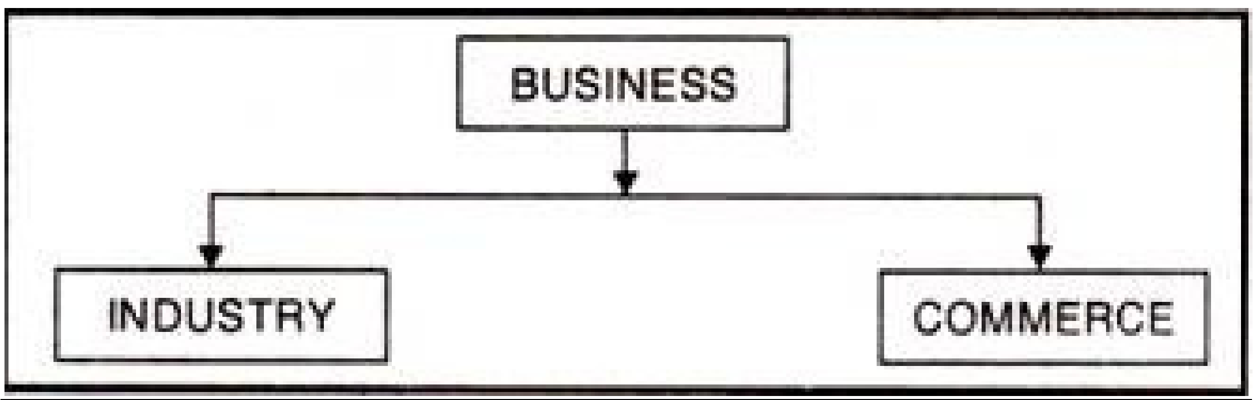
iv. Indian Companies Act, 1956

v. Consumer protection Act

10. Optimum utilization of resources:

Business facilitates optimum utilization of countries material and non-material resources and achieves economic progress. The scarce resources are brought to its fullest use for concentrating economic wealth and satisfying the needs and wants of the consumers.

Classification of Business Activities



1. Industry:

Industry is concerned with the making or manufacturing of goods. It is that constituent of production which is involved in changing the form of goods at any stage from raw material to the finished product, e.g., weaving woolen yarn into cloth. Thus, industry imparts 'form utility' to goods. The goods produced may either be used by other enterprises as raw materials for further production; they are known as "producer's goods". The production of plant, machinery equipment etc. are, examples of producers' goods. When goods are finally used by consumers they are known as consumers' goods. The examples of such goods are cloth, bread, groceries, drugs, etc. An enterprise may produce materials which will further be processed by yet another concern for converting them into finished goods. These goods are known as intermediate goods.

The examples of this category are—plastics, rubber, aluminum, etc.

Classification of industries:

I. **On the basis of type of goods produced:**

(i) Primary and Genetic Industry

(ii) Extractive Industry

(iii) Construction Industry

(iv) Manufacturing Industry

II. On the basis of size and investment

(I) Large Scale Industry

(II) Small Scale Industry

III. On the basis of technology employed

(i) Heavy Industry

(ii) Light Industry

2. Commerce

1. Business and Profession
2. Business and Employment

I. On the basis of type of goods produced

The industries may be studied on the basis of the type of goods produced

(i) Primary and Genetic Industry:

Genetic industry is related to the re-producing and multiplying of certain species of animals and plants with the object of earning profits from their sale. Nurseries, cattle breeding, fish hatcheries, poultry farms are all covered under genetic industry. The plants are grown and birds and animals are reared and then sold on profit. No doubt nature, climate and environment play an important part in these industries but human skill is also important.

(ii) Extractive Industry:

The extractive industry is engaged in raising some form of wealth from the soil, climate, air, water or from beneath the surface of the earth. These industries are classified into two categories. In the first category, workers merely collect goods already existing. Mining, fishing, and hunting is covered in this category. In the second category', the goods are to be produced by the application of human skill, i.e., agriculture and forestry. Extractive industries supply basic raw materials that are mostly the products of the soil. Products of these industries are usually transformed into many useful products by manufacturing industries.

(iii) Construction Industry:

This industry is engaged in the creation of infra-structure for smooth development of the economy. It is concerned with the construction, erection or fabrication of products. These industries are engaged in the construction of buildings, roads, dams, bridges, and canals. These industries use the products of other industries such as cement, iron, bricks and wood, etc. Engineering and architectural skills play an important part in construction industry. Engineering and constructing firms are organized for undertaking operations of construction industry.

(iv) Manufacturing

This Industry is engaged in the conversion of raw materials into semi-finished or finished goods. This industry creates form utility in goods by making them suitable for human use. Most of the goods which are used by consumers are produced by manufacturing industries. These industries supply machines, tools and other equipment's to other industries too.

II. On the basis of size and investment:

(i) Large Scale Industry:

Though there may not be any hard and fast rule for such classification but government has fixed certain limits on investments which differentiate between large scale and small scale industries. At present the industries investing more than Rs. 3 crore in plant and machinery in manufacturing units and in ancillary units are covered in large scale sector. Large scale units are in a position to use latest methods of production and economise on various inputs.

(ii) Small Scale Industry:

The units having an investment upto Rs. 1 crore in plants and machinery are small units. A small scale unit has the disadvantage of lower production and comparatively higher cost of production.

III. On the basis of technology employed

(i) Heavy Industry:

The industry engaged in the production of machinery, steel, power generation are called heavy industry. These units need heavy .investments and employ complex technology in production.

(ii) Light Industry:

Industries engaged in producing consumer goods etc. arc called light industries. The production technology is simple and machinery used is inexpensive.

2. Commerce

All those activities which are connected with taking goods and services from producers to users come under the purview of commerce. The goal of commerce is to ensure a proper flow of goods and services for the benefit of both producers and consumers. People are able to buy goods produced anywhere in the world with the help of commerce.

Commerce activities may precisely be described as

(i) Commerce is related to the activities dealing with distribution and exchange of goods and services. These activities relate to trade aspect

(ii) Commerce covers all these activities which smoothen or help trade. These activities are transport, banking, insurance, warehousing, advertising, etc. These are ancillary services and are called aids to trade.

(iii) Commerce is a part of business. Business is a wider concept and includes industry too.

(iv) Commerce is a part of economics. Economics is a study of human beings as consumers and producers and it has a much wider scope than commerce.

Business and Profession:

Business is a sum total of activities pursued with a purpose to produce and accumulate wealth. A profession is also adopted to earn a living. The purpose of both business and profession is to earn a living. Though both look similar yet there is a difference between the two.

Business and Employment:

In employment a person serves an employer under certain agreement and is paid an agreed remuneration. A business, on the other hand, is working for himself and aiming at earning profit out of it.

Objectives of business

"Objective of business means the purpose for which business is established." Profit is not the only objective of business. Every work is started with an objective. The objective is a **goal**, the achievement of which is a necessity and all efforts are concentrated for the fulfilment of that objective.

According to Peter Drucker,

"Objectives are needed in every area where performance and results, directly and vitally affect the survival and prosperity of the business."

Classification of Objectives of Business

A. Economic Objectives

B. Social Objectives

C. Human Objectives

D. National Objectives

E. Global Objectives

A. 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.

(i) 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:

a) 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.

(b) 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.

(c) 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.

B. 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.

(i) 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.

(ii) 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.

(iii) 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 college’s better education opening of vocational training centre's 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.

C. 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.

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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.

D. 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.

(i)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.

(ii) 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 are also expected to provide equal opportunities to all the employees to work and progress. Towards this objective special attention must be paid to weaker and backward sections of the society.

(iii) 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.

(iv) 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.

(v) 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.

E. 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.

(i) 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.

(ii) 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.

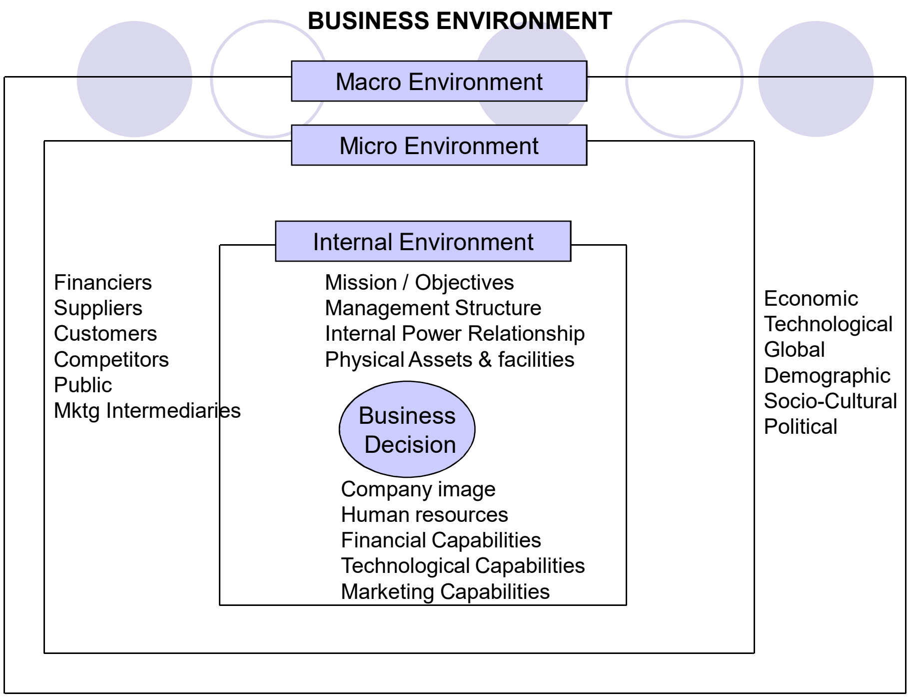
(iii) Make Available Globally Competitive Goods and Services:

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.

Environment

Environment refers to all external forces which have a bearing on the functioning of business. ”Environment are largely if not totally external, and beyond the control of individual industrial enterprises and their management. These are essentially the givers within which firms and their managements must operate in a specific country and they vary, from country to country”. However, the term business environment refers to the External Factors**.** The external environment has two components i.e. business opportunities and threats to business. Similarly, the organizational environment has two components i.e. Strengths and weaknesses of the organization. A SWOT analysis is thus the first step in strategy formulation.

BUSINESS ENVIRONMENT



Macro Environment

Any organization is industrial and trading operates within an external environment that it generally cannot control. Macro environmental forces have considerable influence on any organizations marketing system.

These are

- Demography,
- Economic conditions,
- Competitions;
- Social and Cultural forces;
- Political and Legal forces and Technology.

They are macro- environmental forces because change in any of them can change in one or more of the others. Therefore, they are closely interrelated. One thing is certain that all these forces have one thing in common that they are dynamic forces which are subject to change and at an increasing rate per sec. These six forces are largely uncontrollable by management. However these are not totally uncontrollable. A company may be able to influence its external environment to some extent. For instance, an international marketing company can improve its competitive position by a joint venture with a foreign firm that markets a complementary product.

NOVARTIS is a fine example where two well known pharmaceutical companies namely Ciba and Sandoz came together by merger. Another example is that of Brooke Bond and Lipton came together as Lipton Brooke Bond renowned companies in tea and coffee beverages. A company may influence its political and legal environment by lobbying or by contributing to a legislator's campaign fund for fighting elections.

1. Demographic Forces:

Demography is the study of human population and its distribution. Demography deals with people and people constitute market for company's products. These demographic features relate to growth of population Birth and Death rates, Sex ratio, Age group, rate of literacy, ethnic group, and density of population, rural and urban and so on. Thus, the total population consists more of old people and babies, there is more demand for medicines and walking sticks. Younger generation component speaks of demand for personality improvement products. Quality of life is greatly influenced by rate of literacy and so on.

2. Economic Forces:

Mere presence of people does not constitute market. We want people with money to spend and their willingness to spend. Hence, economic component features a force having significant impact as marketing activities. A marketing programme of a company is influenced by such factors which are both current and anticipated. These are stage of business cycle, inflation, rates of interest. A business cycle has a typical four stages namely prosperity, recession, depression and recovery. However, only two are mostly serious prosperity or boom and depression or doom.

Prosperity is a period where organizations tend to extend and expand their marketing programs as they add new products and enter new markets. It is a period of rising demand, free money supply, and optimistic mood of people to enjoy the goods and services as they have more disposable per capital income. On the other hand, depression is a period of stockpiles, restricted money supply, lack of demand, unemployment.

That is why marketing programs are cut-down to the rock bottom as there is modernized. In between these two, recession and recovery periods do have implications. During recession, there is a temporary fall in demand as we are facing today where people expect further fall in prices. Take the examples of real estate. While goods where price wars are going on. This affects the prospects of company badly but temporarily. In period recover, demand picks up, once again firms marketing' programs get retaliation. Thus much depends on each phase. Inflation is another component of economic forces. Inflation is a rise in the prices of goods and services. That is the value of a dollar or a rupee has come down. The purchasing power of a rupee or real value gets reduced. For same quantity and quality of goods, people are forced to pay higher prices. Inflation of wild dose is good for everyone but wild rise is bad for the society particularly middle and poor class. That consumer spend less and less on luxuries, comforts and concentrate as basic necessities of living. This inflation poses a real problem in managing marketing programme in that as to how to price the products and how to control the costs.

The people spend not only less as purchasing power is reduced but also prefer to spend today than later as there is danger for further price rise. It is a precautionary stand as value of a rupee falls day by day.

INTEREST RATES is still another economic component having influence on marketing programme of a firm. It is but natural that when interest rates go high they do not go in for long-term needs such as housing, automobiles as they find it difficult to fulfill their short-term needs. That is why, the only anecdote to cut the prices of products substantially and zero rate of interest programmes in case of durable goods to increase or sustain business.

3. Competition:

Competitive environment is a major component affecting the marketing efforts. A wise and skilful marketing executive constantly monitors all aspects of competitor's marketing activities namely, their products, pricing, distribution system, promotion programmes and so on. As firms are going global, there is threat of external competition in addition to internal competition. Today, Indian market is filled with all foreign products in important areas like electronics, electrical, textiles, agro-based products and the like. The types of competition can be brand competition, substitute product competition, limited customer competition.

4. Social and Cultural Forces:

The marketing managers of today do not have sound sleep because social and cultural values and value systems are constantly changing affecting the present marketing programme. This component is made up of social and cultural forces. Social forces stand for social values of life and living. The society of today can be divided into materialistic and spiritual values. The domestic or materialistic values say life is short-beg, borrow or steal but enjoy the life. While other group says think of simple living and high thinking because more and more needs and wants are the root causes of our miseries of life. On the other hand, cultural values are also changing as to clothing, shelter and day to day living. Take one aspect that fashions and style movement’s change and the business house are to give those. If girls and boys want jeans, other ever better products will not do. Again we people as the member of society are interested in environmental friendly products like soap-less soap, smokeless cigarette, diet beer, high tech food, fast food and so on.

Today, women liberation movement has made home ministry all the powerful though finance minister is financing all the needs, because marketing manager of family is a housewife. Again parents alone do not decide but children too. It has resulted in fast changing lifestyle of women and earning capacity bringing into play health and fitness, impulse buying and conveniences.

5. Political and Legal Forces:

Each and every firm’s control is influenced more and more by political and legal forces in the country. The political and legal forces prevailing in country can be grouped into at least five captions namely:

1. Monetary and Fiscal policies:

Marketing systems are affected by the level of government spending, the money supply and its tax policies.

2. Social legislation and Regulation:

Legislation affecting the environment anti-pollution laws, protection of public life and the like.

3. Governmental relationship with the industries:

This relates the treatment given by government in case of industries and industrial units in terms of subsidies and penalties. This also speaks of the encouragement and discouragement through incentives and fines controlling and decontrolling.

Legislation related specifically to marketing:

There are many Acts and Laws specifically applied in the area of marketing—that affect the working of these units. To illustrate MRTP Act, 1919, Consumer Protection Act of 1986, Indian Sale of Goods Act of 1930, Essential Commodities Act and so on. Here the marketing executives need not be lawyers but should be aware of the Acts and provisions affecting their area. These Acts may be central, state and local.

5. Source of information and buyer of the product:

This area is one where governments at all levels publish information to help the executives as government is the bulk buyer in case of some common duties and services.

6. Technology:

Technology has an immense impact on our daily life and life-styles, our consumption patterns and economic well-being. Just imagine the technological developments over the years of any commodity say watch, sport, radio, television, telephone, anit-bodies and think what would be the shape of the things to come after say 10 or 20 years. Perhaps the most important breakthrough is miniaturization of electronic products. Today, a hand held computer smaller than laptop size allows sales people to place orders directly from customer's location.

Technological breakthrough can affect markets and marketing activities at least in three ways:

(1) Can start entirely new industries as computers, lasers, robots have done.

(2) Can radically alter or totally destroy existing industries and

(3) Can stimulate markets and industries not related to the technology.

For instance, already existing home equipment and appliances can generate free time to households to engage in new activities. It should be noted that technology is a mixed blessing in other ways too. On one hand it helps us to improve our lives, at the same time, creates environmental and social problems. Thus automobiles have come to stay, creating problems of traffic jams, air pollution.

Global Environment:

The global environment refers to those factors which are relevant to business, such as the WTO principles and agreements; other international conventions/ treaties / agreements / sentiments in other countries etc. For e.g. hike in crude oil prices has a global impact etc.

World is becoming one market, Improving quality, Competition from MNCs, Capital and technology transfers, Deciding which markets to enter and what products to manufacture, Adjusting the management process,

External Micro Environment:

The external micro environment is made up of three basic forces that are external but are part of company's marketing system. These are the firm's market, suppliers and its marketing intermediaries. While they are generally controllable, these external forces can be influenced more than the macro forces so far discussed. For instance, a marketing organisation can exert pressure on its suppliers or middlemen. Through advertising, a firm has some influence on its market. Let us take up these three points for better understanding.

This external micro environment can be represented as in Fig 3.

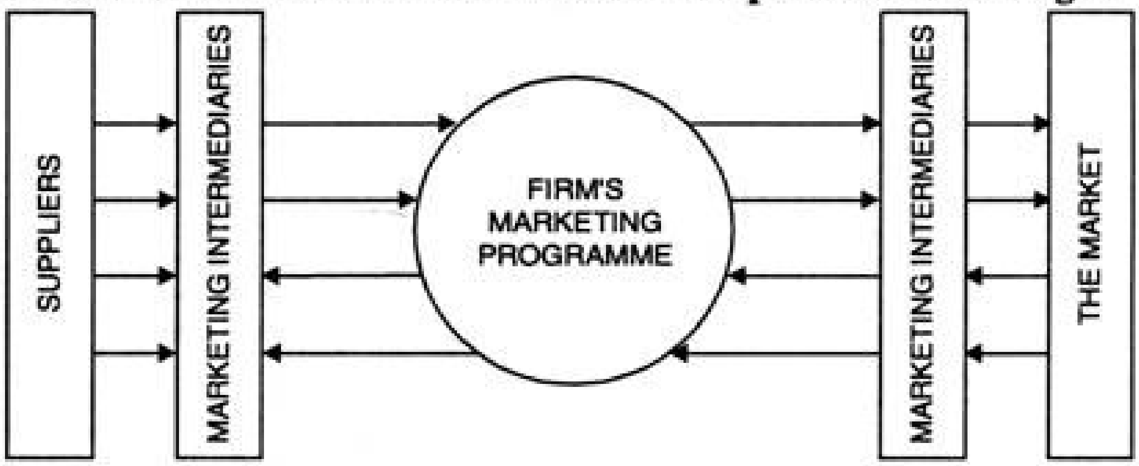


Fig. 1.08. External Micro-environment of a Firm's Marketing Programme

1. The Market:

Market really is what marketing is all about how to reach it and serve it profitably and in a socially responsible manner. It goes without saying that market becomes the focus of all the marketing decisions in an organisation. A market is a place where buyers and sellers meet, goods and services are offered for sale and transfer of title of the goods takes place. Market is demand made by a certain group of potential buyers for a good or service. For example, there is a farm market for plastic products. Market is taken as people or organisation with wants to satisfy, money to spend and the willingness to spend. That is market demand for a given good or service taken into account three points people organisation with wants purchasing power their buying behaviour.

2. Suppliers:

The marketing firm cannot sell unless it makes the products or buys it first. Suppliers are crucial to the firm's success because they supply those products which consumers want from the marketing house. They are crucial because they supply those products what consumers want from the marketing house. They are crucial because they take the responsibility of understanding consumer's needs as viewed by selling or marketing firm. Marketing firm cannot sever the relations with suppliers as it cannot do so in case of its customers.

3. Marketing Intermediaries:

Marketing intermediaries are the independent individuals or organisations that directly help in the free flow of goods and services between marketing organisations and its markets. These are basically of two types, namely 'merchant' and 'agent'. Merchant middlemen can be wholesalers and retailers. While agent middlemen can take five to six forms. These intermediaries render so important services that they cannot be removed and hence, become part and parcel of the system.

Process of Environmental Analysis:

The analysis consists of four steps:

- **Scanning** : Detect early signals of possible environmental change and detect environmental change already underway.
- **Monitoring** : Purpose of monitoring is to assemble sufficient data to discern whether certain trends are emerging, identification of the trends and identification of areas for further scanning.
- **Forecasting** : It is concerned with developing projections of the direction, scope and intensity of environmental change.
- **Assessment** : To determine implications for the organization's current and potential strategy.

Environmental forecasting:

Meaning of environmental forecasting

Forecasting is a way of estimating the future events that have a major impact on the enterprise. Environmental forecasting is a technique whereby managers attempt to predict the future characteristics of the organizational environment and hence make decisions today that will help the firm deal with the environment of tomorrow.

Definition of environmental forecasting

Forecasting involves the use of statistical and non-statistical, or qualitative, techniques. “Estimating the intensity, nature and timing of the external forces that may affect the performance of a firm, disrupt its plans, or force a change in its strategies.”

Steps in environmental forecasting:

1. **Identification of relevant environmental variables**

Before managers can begin to formulate an effective strategy, they must make a critical examination of the firm's environment. All environmental variables do not have the same relevance to all industries. Assessing the strategic situation is the first phase in determining the content of the proper strategies for a firm. This process begins with an assessment of the general environment of the firm, in terms of economic, technological, social, and political/legal influences.

E.g., diesel price is a critical factor for railways using that energy source but not for electric trains. Omission of critical variables or inclusion of non-relevant variables could have misleading effects.

2. **Collection of information**

Once the environmental variables are identified, the next step is to collect the information that is needed. It involves the identification of sources of information, determination of the types of information to be collected, selection of methods of data collection and collection of information.

3. **Selection of forecasting technique**

The choice of the forecasting technique depends on the nature of the forecast decision, the amount and accuracy of the available information, accuracy required, time available, importance of the forecast, the cost, etc.,

4. **Monitoring**

Monitoring is very important as the characteristics of the variables or their trends may undergo changes. Further new variables may emerge as critical or the relevance of certain variables may decline. It is therefore necessary to monitor changes.

TYPES OF FORECASTING:

1. Economic Forecast
2. Social Forecast
3. Political Forecast
4. Technological Forecast

1. Economic Forecast:

As a economic environment is a very critical determinant of business prospects, economic forecasts is very important. The Economic factors often considered include general economic conditions, GDP growth rate, per capita income, structural changes in GDP, Investment and output trends in different sectors and subsectors/industries, price trends, trade and BOP(record of all international financial transactions made by a country's residents) trends etc.

2. Social Forecast:

Social trends have significant implications for business strategy. It is, therefore , very essential to forecast the possible changes in the relevant social variables. Important factors include :

1. Population growth/decline
2. Ethnic composition
3. Life Styles
4. Social attitudes
5. Income levels

3. Political forecast:

Political forecast has an important part in envisioning properly the future scenario of business. Relevant factors include:

1. Changes in the relative power of Political party.

2. Political alliances and political ideologies etc.
3. Political forecasts also cover industrial policy, commercial policy, and Fiscal policy, International political developments are also important.

4. Technological forecast:

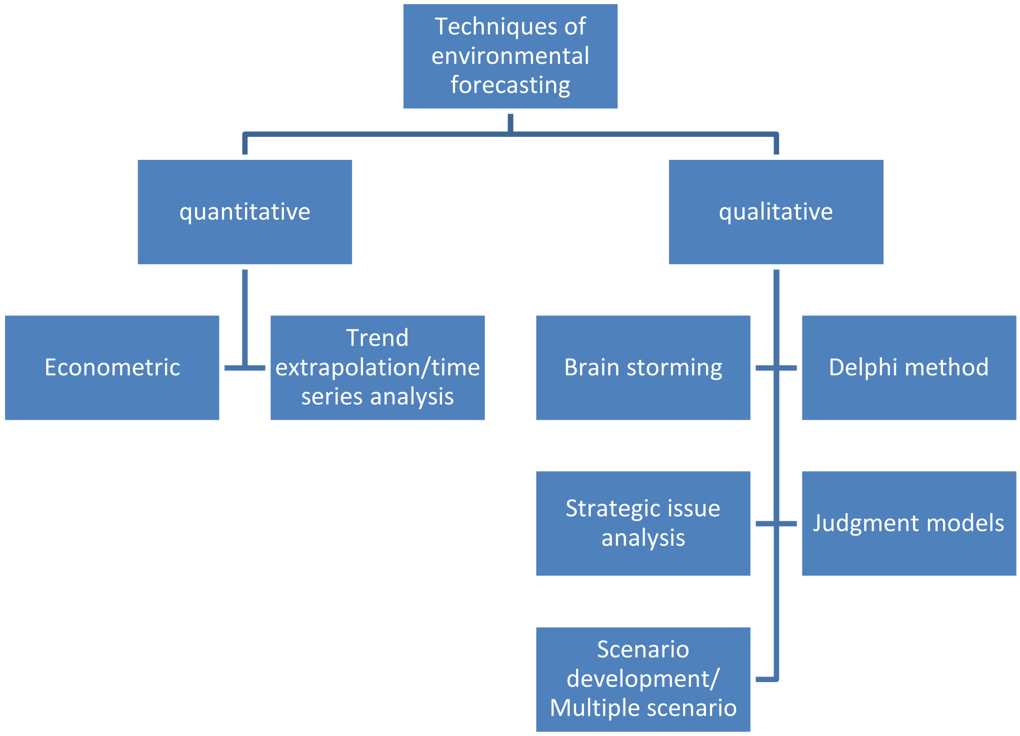
Innovation and other technological developments can drastically alter the business environment. Technological forecasts, therefore, assumes great significance. It encompass not only technological innovations but also the pace and extent of diffusion and penetration of technologies and their implications.

<u>Techniques of environmental forecasting:</u>

Quantitative techniques:

It can be numberized i.e., under this technique numerical data is used. The following are the quantitative techniques:

<u>A. Econometric Technique</u>: econometric is the statistical methods used by economists. It is a set of quantitative techniques that are useful in making economic decisions. It is the application of statistical and mathematical theories to economics for the purpose of testing hypothesis and forecasting future trends. For example : a real life application of econometrics would be to study the hypothesis that as a person's income increases , spending increases.



B. <u>Trend Extrapolation / time series analysis</u>:

Time series models assume that the past is a introduction to the future and extrapolate(extending the application of a known information to an unknown situation) the historical data to the future. We can say future is viewed in the light of past under this technique. This is an empirical procedure in which certain historical trends (such as population growth, technological innovations, changes in incomes etc) are used to predict such variables as a firm's sales or market share. Because time series analysis projects historical trends into the future its validity depends on the similarity between past trends and future conditions.

<u>Qualitative Technique</u>:

Under this technique numerical data are not used. The following are the methods of qualitative technique

1. <u>Brain Storming</u>:

Brain Storming is a creative method of generating ideas and forecasts. Under this method, a group of knowledgeable people are encouraged to generate ideas, discuss and to make forecasts on the basis of that. It is popular technique for technological forecasting.

2. Delphi Method**:**

This is a forecasting procedure in which experts in the appropriate field of study are independently questioned about the probability of some event's occurrence. The responses of experts are compiled and a summary is sent to each expert. This process is repeated until consensus is arrived regarding a particular forecasted event.

3. Strategic Issue Analysis:

It is the process of developing strategy for a business by researching the business and the environment in which it operates. A 'strategic issue' is an issue or an unresolved question needing a decision or waiting for some clarifying future event. The developments, events and trends having the potential to impact an organisation are the strategic issues. It is strategic as it has a major impact on the course and direction of business.

4. Judgment models:

This is a forecasting technique in which employees, customers, suppliers and/or trade associations serve as a source of qualitative information regarding future trends. For instance sales representatives may be asked to forecast sales growth in various product categories based on their interaction with customers. Survey instruments may be mailed to customers, suppliers or trade associations to obtain their judgments on specific trends.

5. Scenario development/ Multiple Scenario: Future events can't be predicted easily as our assumptions may go wrong, trends may change, events may take a different route altogether or some unexpected thing may change the whole scenario. To overcome these, a manager should formulate several alternative descriptions of future events and trends (called as multiple scenarios).

UNIT – II

Forms of Business organizations:

Proprietorship- Features, merits & demerits

Partnership - Features, merits & demerits

Company – features merit and de-merits

Cooperatives - Features, merits & demerits

Public Enterprises – Features, merits & demerits.

Forms of Business organizations

Introduction:

Business concerns are established with the objective of making profits. They can be established either by one person or by a group of persons in the private sector by the government or other public bodies in the public sector. A business started by only one person is called sole proprietorship. The business started by a group of persons can be either a Joint Hindu Family or Partnership or Joint Stock Company or a Co-operative form of organization. Forms of business organization are legal forms in which a business enterprise may be organized and operated.

These forms of organization refer to such aspects as ownership, risk bearing, control and distribution of profit. Any one of the above mentioned forms may be adopted for establishing a business, but usually one form is more suitable than other for a particular enterprise. The choice will depend on various factors like the nature of business, the objective, the capital required, the scale of operations, state control, legal requirements and so on.

Sole Proprietorship:

A **Sole Proprietorship** is a business with one owner who operates the business on his or her own or employ employees. It is the simplest and the most numerous form of business organization in most of the countries, however it is dangerous as the sole proprietor has total and unlimited liability. It is a 'one man business'. Self contractor is one example of a sole proprietorship.

"A sole proprietorship is a form of business organization owned and managed by a single person. He is entitled to receive all the profits and bears all risk of ownership"

Features:

The important features of sole proprietorship are:

1. The business is owned and controlled by only one person.
2. The risk is borne by a single person and hence he derives the total benefit.
3. The liability of the owner of the business is unlimited. It means that his personal assets are also liable to be attached for the payment of the liabilities of the business.
4. The business firm has no separate legal entity apart from that of the proprietor, and so the business lacks perpetuity.
5. To set up sole proprietorship, no legal formalities are necessary, but there may be legal restrictions on the setting up of particular type of business.
6. The proprietor has complete freedom of action and he himself takes decisions relating to his firm.
7. The proprietor may take the help of members of his Family in running the business.

Merits:

1. **Ease of formation:** As no legal formalities are required to be observed.
2. **Motivation:** As all profits belong to the owner, he will take personal interest in the business.
3. **Freedom of Action:** There is none to interfere with his authority. This freedom promotes initiative and self-reliance.
4. **Quick Decision:** No need for consultation or discussion with anybody.

5. **Flexibility:** Can adapt to changing needs with comparative ease.
6. **Personal Touch:** comes into close contact with customers as he himself manages the business. This helps him to earn goodwill.
7. **Business Secrecy:** Maintaining business secrets is very important in today's competitive world.
8. **Tax advantage:** any income is declared as the owner's personal income tax return, therefore there are no corporate income taxes.

Demerits:

1. Limited resources: one man's ability to gather capital will always be limited.
2. Limited Managerial Ability
3. Unlimited Liability: Will be discouraged to expand his business even when there are good prospects for earning more than what he has been doing for fear of losing his personal property.
4. Lack of Continuity: uncertain future is another handicap of this type of business. If the sole proprietor dies, his business may come to an end.
5. No Economies of Large Scale: As the scale of operations are small, the owner cannot secure the economies and large scale buying and selling. This may raise the cost of production.

Partnership:

A **Partnership** is a business with two or more individuals who owns and manages the business. Partners share the unlimited liabilities of the business and operate the business together.

There are three classification of partnerships: general partnership (partner divide responsibility, liability and profit or loss according to their agreement), limited partnership (in additional at least one general partner, there are one or more limited partner who have limited liability to the extent of their investment), and limited liability partnership (all of the partners have limited liability of the business debts; it has no general partners).

Section 4 of the Partnership Act, 1932 defines Partnership as, *"the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all"*

Partnership is governed by Indian Partnership Act,1932. Its the relation between persons who have agreed to share profits of a business carried on by them.The partnership Act does not lay down any maximum number of partners. But according to section 464,Rule 10 of Companies miscellaneous Rules,2014, maximum number of partners is 100.

According to section 11 of the Companies Act, 1956 a partnership for a banking business must not have more than 10 partners and for other business it must not exceed 20.

Features:

1. **Capital:** The capital of a partnership is contributed by the partners but it is not necessary that all the partners should contribute equally. Some may become partners without contributing any capital. This happens when such partners have special skills, abilities or experience. The partnership firm can also raise additional funds by borrowing from banks and others.

2. **Control:** The control is exercised jointly by all the partners. No major decision can be taken without consent of all the partners. However, in some firms, there may partners

known as sleeping or dormant partners who do not take an active part in the conduct of the business.

3. **Management:** Every partner has a right to take part in the management of the firm. Sometimes the deed may provide for the division of responsibilities among the different partners depending upon their specialization.

4. **Duration of partnership**: The duration of the partnership may be fixed or may not be fixed by the partners. In case duration is fixed, it is called as "partnership for a fixed term. When the fixed period is over, the partnership comes to an end.

5. **Unlimited Liability:** The liability of each partner in respect of the firm is unlimited. It is also joint and several and, therefore any one of the partner can be asked to clear the firm's debts in case the assets of the firm are inadequate for it.

6. **No separate legal entity**: The partnership firm has no independent legal existence apart from that of the persons who constitute it. Partnership is dissolved when any partner dies or retires. Thus it lacks continuity.

7. **Restriction on transfer of share**: A partner cannot transfer his share to an outsider without the consent of all the other partners.

Kinds of Partnership (On the basis of liability)

General Partnership or Unlimited Partnership :

A partnership which has only general partners is called general partnership.

The partners whose liability is unlimited are called general partners.

Limited Partnership:

A partnership which has one or more limited partners in addition to one or more general partners is called limited partnership.

On the basis of duration, partnership can be classified into **3 kinds**:

1.Partnership for a fixed term: When a partnership is formed for a fixed term that is for a particular period, it is called partnership for a fixed term.

2.Particular partnership: When a partnership is formed for a particular venture that is for undertaking or business, it is called a particular partnership.

3.Partnership at will : Where no provision is made in the contract between the partners for the duration of the partnership or the termination of their partnership, the partnership is called partnership at will.

Types of Partners:

Active, Actual, Working or Ostensible Partner: A Partner who takes an active part in the conduct and management of the firm is called an active, actual, working or ostensible partner.

Sleeping, Dormant or Financing Partner: A partner who merely contributes capital and shares the profits or losses of the firm, but does not take active in the conduct and management of the partnership business is called a sleeping, dormant or financing partner.

Secret Partner: If a person is a partner of the firm, but the fact of his being a partner is not disclosed to the outsiders, is called a secret partner.

Nominal, Fictitious or Partner in name only : A partner who neither contributes capital nor share the profits and losses of the firm nor takes any active part in the conduct of business of the firm, but merely lends his name to the firm is called a nominal, fictitious or partner in name only.

Partner in profit only: A partner who, as per the partnership agreement, is entitled to share in the profits of the firm, but is not liable to contribute towards the losses of the firm is called a partner in profits only.

Partner by Estoppel: Where a person, by words of mouth or by his conduct, gives an impression to the outside world that he is partner in a certain partnership firm, though he is not a partner. But he is held liable as a partner of the firm to any outsider who has granted credit or loan to that firm on the faith of his representation.

Partner by Holding Out: Where a person is represented to the outside world as a partner by any of the real partner of the firm, and if he, on coming to know of it does not object to his represented to the outside world as a partner, then he is held liable as a partner to the outsider to whom he has represented as a partner.

Minor partner: It is true that a minor cannot become a full-fledged partner of a firm. But as per Section 30(1) of the Partnership Act, he may be admitted to the benefits of the partnership with the consent of all the partners by an agreement executed by his guardian on his behalf with other parties

Partnership Deed

When the partnership agreement is put in writing, duly stamped and signed by all the partners, the document containing the partnership agreement is called partnership deed or the Articles of Partnership.

The Indian Partnership Act of 1932 neither makes the registration of a firm compulsory nor imposes any penalty for non-registration. However, it is advisable to register a firm.

An unregistered firm suffers from certain disabilities. They are:

1. An unregistered firm cannot file a suit in a court of law against the third parties for recovering its debts.

2. An unregistered firm cannot file a suit against any of its partners for the recovery of its debts.

3. A partner of an unregistered firm cannot file a suit in a court of law against the third parties or against the firm or against his co-partners for the recovery of the claims.

Terms and conditions that are included in a partnership deed are as follows:

- Name of the firm
- Name and addresses of the partners
- Nature of business

- Principle place of business and branches of the firm
- Date of commencement of partnership
- Duration of partnership
- Amount of capital to be contributed by each partner
- Manner in which additional capital is to be introduced
- Amount of withdrawal that can be made by each partner
- Interest to be allowed on partners capital
- Interest to be charged on partners drawings
- Amount of salary , commission or any other remuneration payable to any partner
- Ratio in which the profits or losses of the firm is to be shared
- Rights , duties and liabilities of the partners
- Methods of settlement of accounts on dissolution of the firm , retirement or death of a partner
- Arbitration clause , that is the way in which the disputes are to be settled among the partners
- How the accounts are to be kept and audited
- Expulsion of a partner in case of any fraud.etc.

Merits:

1. **Ease of formation:** Partnership can be easily formed without expense and legal formalities. Even the registration of the firm is not compulsory.

2. **More resources:** When compared to sole-proprietorship, the partnership will have larger resources. Hence, the scale of operations can be increased if conditions warrant it.

3. **Better organization of business:** As the talent, experience, managerial ability and power of judgment of two or more persons are combined in partnership, there is scope for a better organisation of business.

4. **Greater interest in business:** As the partners are the owners of the business and as profit from the business depends on the efficiency with which they manage, they take as much interest as possible in business.

5. **Balance judgement:** As partners possesses different types of talent necessary for handling the problems of the firm, the decisions taken jointly by the partners are likely to be balanced.

6. **Flexibility:** Partnership is free from legal restriction for changing the scope of its business. The line of business can be changed at any time with the mutual consent of the partners. No legal formalities are involved in it.

7. **Diffusion of risk:** The losses of the firm will be shared by all the partners. Hence, the share of loss in the case of each partner will be less than that sustained in sole proprietorship.

Demerits:

1. Great risk: As the liability is joint and several, any one of the partners can be made to pay all the debts of the firm. This affects his share capital in the business and his personal properties.

2. Lack of harmony: Some frictions, misunderstanding and lack of harmony among the partners may arise at any time which may ultimately lead to the dissolution.

3. Instability: The death, retirement or insolvency of a partner leads to the dissolution of the partnership. Further even any one partner if dissatisfied with the business, can bring about the dissolution of partnership. Hence partnership lacks continuity.

4. Tendency to play safe: Because of the principle of unlimited liability, the partners tend to play safe and pursue unduly conservative policies.

5. No legal entity: The partnership has no independent existence apart from that of the persons constituting it, i.e. it is not a legal entity.

6. Lack of public confidence: No legal regulations are followed at the time of the formation of partnership and also there is no publicity given to its affairs. Because of these reasons, a partnership may not enjoy public confidence.

COMPANY:

A company or association of persons can be created at law as legal person so that the company is itself can accept Limited liability.

"A company is an incorporated voluntary association of persons in business having joint capital divided into transferable shares of a fixed value, along with the features of limited liability, common seal and perpetual succession".

<u>Kinds of companies:</u>

On the Basis of Formation:

(I) Statutory Company: A company which is created by a special Act of the Parliament or Assembly of any State is called as statutory company. The State Bank of India, Reserve Bank of India, Life Insurance Corporation, Unit Trust of India etc., are examples.

(ii) Registered Company: A company registered under the Companies Act, 1956 is called as a registered company. These are governed by the above Act and subject to the rules of memorandum of association and articles of association of their own.

(iii) Government Company: Government Company means any company in which not less than 51 percent of the paid-up share capital is held by the Central Government and or by any state Government or State Governments.

<u>On the Basis of Public Interest :</u>

(i) **Private Company:** A private company is a very suitable form for carrying on the business of family and small concerns it is registered under the Companies Act, 1956. According to Section 3 of the Companies (Amendment) Act, 2000 a private company is one which has the following features.

(a) The minimum paid up capital is Rs. 1,00,000

(b) The minimum number of members is two

(c) The maximum number of members is fifty

(d) It is prohibited from issue of shares to the public

(e) It is prohibited from transfer of shares

(ii) Public Company : It is suitable form of company for carrying on the business at large scale involving huge amount of capital. According to Section 3 of the Companies (Amendment) Act, 2000 a private company is one which has the following features.

(a) The minimum paid up capital is Rs. 5,00,000

(b) The minimum number of members is seven

(c) The maximum number of members is unlimited Such a company must use the word “Ltd” as part of its name.

On the Basis of Liability:

(i) Companies Limited by Shares: A company having the liability of its members limited by the memorandum to the value of shares held by them is called a company limited by shares.

(ii) Companies Limited by Guarantee: such a company is defined as a company having the liability of its members limited by its memorandum, to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up. Such companies may or may not have share capital. They are generally formed without share capital for non-trading purposes, such as the promotion of art, science, culture, sports, etc.

(iii) Unlimited Companies: A company having no limit on the liability of its members is an unlimited company. The liability of members in this type of companies, being unlimited, may extend to the personal property of the members.

On the Basis of Control:

(i) Holding Company: Where one company controls the management of another company, the controlling company is called Holding Company.

(ii) Subsidiary Company: Where one company controls the management of another company such company so controlled is called as subsidiary company.

On the Basis of Nationality:

(i) Indian Company: A company registered in India having place of business in India is called as Indian company.

(ii) Foreign Company: It means a company incorporated outside India.

On the Basis of Area:

(i) National Company: Such companies confine their operations within the boundaries of the country in which they are registered.

(ii) Multi National Company: Such companies which extend the areas of their operations beyond the country in which they are registered.

Features:

1. **Artificial Legal Person:** A joint stock company is an artificial person created by law to achieve the objectives for which it is formed. A company exists only in the contemplation of law. It is a fiction of law but it cannot be called fictitious as it exists.
2. **Distinct Legal Entity**: A company is a legal person having a juristic personality entirely distinct from and independent of the individual persons who are its members (owners).
3. **Perpetual Succession:** A joint stock company has a continuous existence and its life is not affected by the death, lunacy, insolvency or retirement of its members or directors.
4. **Common Seal:** A company being an artificial person cannot sign documents for itself. The law has, therefore, provided for the use of a common seal, with the name of the company engraved on it, as substitute for its signatures.
5. **Limited Liability:** Liability of the members of a limited company is limited to the value of the shares subscribed to or the amount of guarantee given by them.
6. **Transferability of Shares:** Members of a public limited company are free to transfer the shares held by them to anyone else. Shares can be sold and purchased through the stock exchange.

Merits:

1. **Large Financial Resources:** The joint stock company can raise large amount of money or capital by issuing shares and debentures to the public.
2. **Limited Liability:** The liability of shareholders of a company is limited to the face value of the shares held by them. Their private property is not attachable to recover the dues of the company.
3. **Continuity:** A company being an artificial person created by law and enjoying a distinct and separate personality of its own is not affected by the entry and exit of its members.
4. **Benefits of Large Scale Operation**: A company is in a position to raise large amount of capital and thereby undertake large scale operations.
5. **Public Confidence:** From inception to its winding up all the activities of a company are regulated by the provisions of the Companies Act. This creates and promotes public confidence.
6. **Scope for Expansion and Growth:** The company form is conducive to the expansion of business operations and is also responsible for the growth of giant-size enterprises which operate not only within the country but also in a number of foreign countries. The company form enjoys greater potentialities of growth over other forms of organization.

Co-operatives:

According to the International Labour Office, a **cooperative organization** is “an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end, through the formation of a democratically controlled business organization, making equitable contributions to the capital required and accepting a fair share of risks and benefits of the undertaking.”

Cooperatives are dedicated to the values of openness, social responsibility and caring for others. Such legal entities have a range of social characteristics. Membership is open, meaning that anyone who satisfies certain non-discriminatory conditions may join.

Economic benefits are distributed proportionally to each member's level of participation in the cooperative, for instance, by a dividend on sales or purchases, rather than according to capital invested. Cooperatives may be classified as either worker, consumer, producer, purchasing or housing cooperatives. They are distinguished from other forms of incorporation in that profit-making or economic stability are balanced by the interests of the community

Formation of Co-operatives:

As stated earlier, a co-operative society enjoys a separate legal entity of its own after getting incorporated. To get a co-operative society incorporated, an application is to be submitted to Registrar of Co-operative Societies of the concerned state in which the society’s registered office is situated.

The Registrar of Co-operative Societies after getting the application for registration along with the copies of the bye-laws and those of rules and regulations of the society carefully scrutinizes them so as to ensure that the two documents do not contain anything which is contrary to the spirit of the Co-operative Societies Act.

In case he is satisfied with regard to these points, the society is registered and a certificate to that effect is issued. After getting the Certificate of Incorporation, the society assumes a separate legal entity of its own.

Features:

- **Voluntary Association:** As stated above, persons desirous of pursuing a common objective can form themselves into as association and leave the same as and when one likes by withdrawing his capital. Thus, voluntary feature of the cooperative organization has two important connotations:

(a) Any person may become a member of such an organization irrespective of his caste, creed, religion, colour, sex, etc., and

(b) The members come together to form themselves into an association without any coercion or intimidation.

- **Service Motive:** A cooperative organization is established primarily with a view to rendering service to its members in particular and to the society in general. This however, does not mean that such an organization will not work for profit.
- **Capital:** The capital of the co-operative organization is procured from its members in the form of share capital.
- **Return on Capital:** The return on capital subscribed by the members is in the form of a fixed rate of dividend which is a charge on the trading surplus of the organization.
- **Distribution of Surplus:** Under the present law governing co-operative organization a sum of about ¼ of its profits is to be transferred to general reserves. Similarly, a portion of the profit, not exceeding 10% may be utilized for the general welfare of the locality in which the society is functioning. The rest of the surplus may be distributed in the form of bonus on a certain agreed basis but not on the basis of the capital contributed by the members.
- **Separate Legal Entity:** Like a company, a co-operative organization also enjoys a separate and independent entity distinct from that of its members.
- **State Regulation:** A co-operative organization right from its inception up to its end is subjected to detailed regulation under the Co-operative Societies Act, 1919 or other State 46 Co-operative Societies Act.

- **Democratic Functioning:** The management of cooperative organization vests in a managing committee elected by members on the basis of 'one-member-one vote' irrespective of the number of shares held by any member.
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<u>Merits:</u>

Different types of co-operatives have distinct merits to their credit. But there are some common merits which can be witnessed in all co-operatives. These are as follows;

1. **Easy Formation**: Being a voluntary association, it is easy to form as it does not require long and complicated legal preliminaries.

2. Limited Liability: the liability of the members in a co-operative organization is limited to their capital contribution, just like in a company.

3.Internal Vitality: Co-operatives are not permitted to declare dividend for its members exceeding certain per cent, the balance of the surplus earned in any year by the co-operative can well be utilized for its growth, modernization and development. Thus, there is built in advantage of ploughing back of profits for the better health and prosperity of the organization.

4. Continuity: The life of co-operative organization remains unaffected by the death, insolvency or conviction of a member.

5. State Assistance: Since, Co-operatives have been adopted by the Government as an instrument of economic policy, a number of grants, loans and financial assistance are offered to them to make them function efficiently.

6. **Social Service**: Co-operatives foster fellow feeling among members and impart moral and educative values n their everyday life which are essential for better living.
7. **Reducing Inequalities:** They help in raising the economic status of the relatively poor people thereby reducing the disparity between the rich and the poor.

Demerits:

1. **Limited Capital:** The amount of capital that a co-operative can muster is extremely limited because of the membership remaining confined to particular locality or region and also because of the principle of 'one man-one vote' and the divined restrictions.

2. **Plenty of State Regulation:** Under the existing arrangement the co-operatives are subjected to a variety of regulations from the co-operative department of the State Government because the state offers a number of financial helps.

3. **Lack of Managerial Talent:** Co-operatives at the primary level generally suffer from extremely limited managerial talent because they depend on the personnel drawn from amongst their own members.

4. **Lack of Secrecy:** As is usually common with the forms of organization which enjoy separate legal entity and as such are under obligation to make fuller disclosures of their operations to their members, the co-operatives too being corporate in status fail to preserve their business secrets.

5. **Lack of motivation:** The built in constraint that co-operatives society cannot offer dividend beyond a certain fixed rate (i .e.,6.25per cent), the members of the managing committee with

whom rests the responsibility of managing the co-operatives do not feel sufficiently motivated to do their best to see the co-operative a grand success.

6. **Differences among members:** Although co-operatives are formed with great fanfare and with the great ideals of co-operation and self-help, but soon these higher values of human life disappear with the passage of time. There are often bickering, differences and bad blood created among members on petty matters.

UNIT – III (BBA LLB)

Indian Business Environment:

Socio – Cultural environment,

Economic environment,

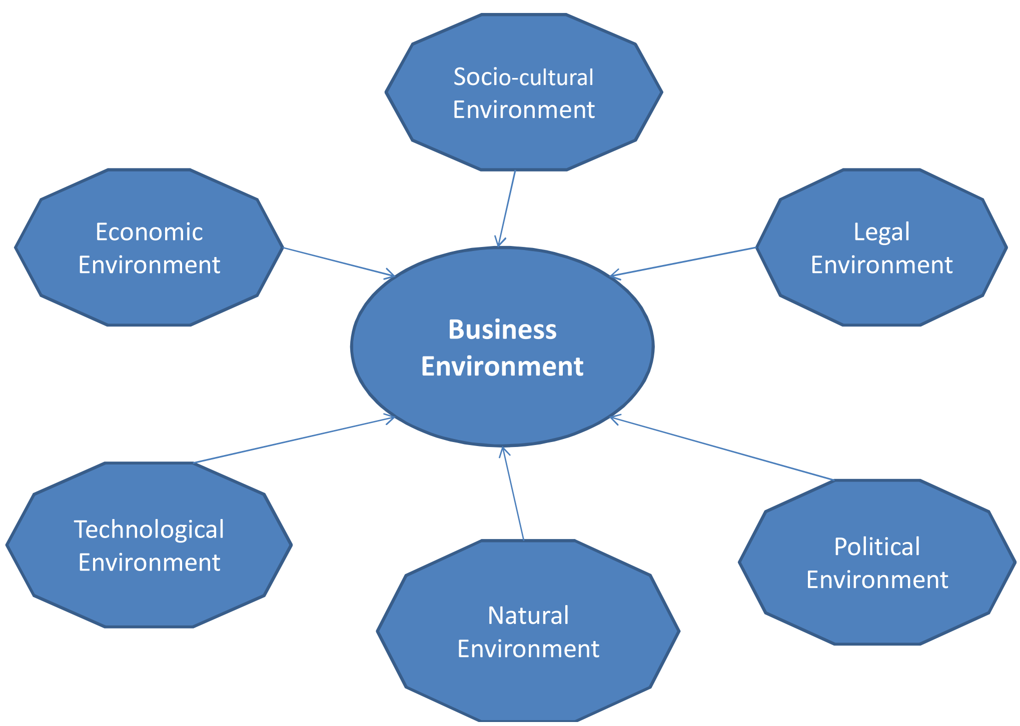
Political environment,

Natural and Legal Environment.

Indian Business Environment:

Business Environment consists of all those factor that have a bearing on the business. A business environment is the social, technological, economic and political environment in which a business functions. The business environment affects organizational decisions, strategies, processes and performance. So it is understood that the kind of business environment present in India is called as **Indian Business environment.**

Dimensions of Business Environment



Dimensions of Business Environment:

Socio-cultural environment: The socio-cultural environment is the identical or similar social positions and social roles as a whole that influence the individuals of a group.

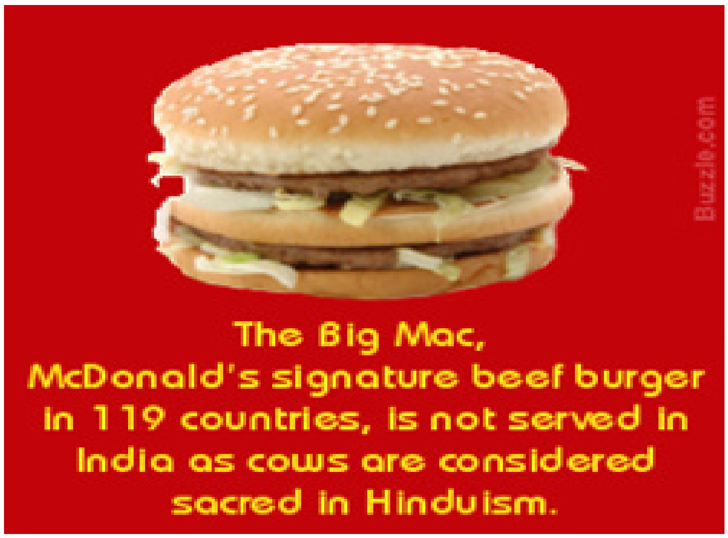
Technological environment: Technological environment hold new technological innovation, new products, the state of technology, the utilization of technology for maximum inputs and outputs, the obsolescence of technology and the dynamic changes that frequently occur in technologies which enable firms to get a competitive advantage .

Economic Environment: The economic environment consists of the Demand dynamics, Supply situation, Pricing factors, Degree of competitiveness, Impact of profitability. It includes the fiscal policy, monetary policy and the taxation policy, the FDI norms, the investment criterion and financing decisions.

Political and Legal Environment: The political environment includes Regulatory burden and red tape, Taxes levels of political corruption, Public works services, Labour market regulation, Policy predictability, Property rights, Contract enforcement, Regulations controlling start up and Bankruptcy, competition law.

Natural Environment: Natural environment includes the naturally existing factors in the environment of business.

Socio-cultural 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 there are many social reforms taking place and the common factors of the 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:

1. Quality of life
2. Importance or place of women in workforce
3. Birth and death rates
4. Attitude of customers towards innovation, life style etc.
5. Education and literacy rates
6. Consumption habits
7. Population
8. Tradition, customs and habits of people.

Culture

Culture

Acc. To **Taylor** **" Culture of civilization is that complex whole which includes, belief, art, morals, law, custom knowledge and other capabilities and habits acquired by man as a member of the society."**

- **Elements of Culture**

1. Knowledge & beliefs – Includes myths , beliefs & scientific realities.
2. Ideals – refers to societal norms which define what is expected, customary, right in given situation.
3. Preferences – Things which are attractive or unattractive as objects of desire.

- **Cultural Adaptation –** Term refers to the manner in which a social system or an individual fits into physical or social environment.

While introducing new products, techniques, ideas, segmentation one should consider the extent to which the different categories of consumers adapt to the new things or environment.

Cultural Transmission:

The elements of culture are transmitted among the members of the culture from one generation to the next and to the new members admitted in the society. As the time goes culture accumulates more techniques, ideas, product and skills. Literature, Film, T.V, Social institutions, advertising, marketing techniques, etc. play an important role in cultural transmission.

Examples showing how socio-cultural environment affects business-

- When an American fast food chain was planning to enter India, one political party stated that it would oppose the marketing of beef product in the country.
- Most Hindus do not purchase goods during Rahu-Kala.
- The Islamic holy book Koran prohibits payment & acceptance of interest. Islamic banks do not pay interest to the depositors nor do they charge interest to borrower's .Rather the banks share the profit with depositors. The profit sharing ratio is fixed.
- Ford's third word truck brand name Fiera meant "Ugly old woman" in Spanish.
- The Arabic language is read from right to left and many Arabians sequence things from right to left. A multinational blundered in the middle east when in the advertisement of its detergent it pictured soiled clothes on the left, the box of detergent in the middle and clean clothes on the right.
- Nescafe has a 3/4 share in Mumbai but poor mkt. share in Bangalore & South whereas Bru has a good market share in Bangalore and not in Mumbai & North India. The reason is Nescafe add. Projects cosmopolitan image of the product whereas Bru add projects South Indian family particularly Tamil Nadu culture.

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 businessmen 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 businessmen. After the new economic policy of 1991, lot 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 bank are offering loans at very nominal rate of interest and 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:

1. Role of Private and Public sector
2. Rate of growth of GDP, GNP, Per Capita income
3. Rate of savings and investments
4. Balance of Trade
5. Balance of Payment
6. Transport and communication system
7. Money supply in the economy
8. International Debt

Economic environment exercises the most direct and immediate influence on Entrepreneurship. The economic factors that affect the growth of entrepreneurship are the following:

Capital: Capital is one of the most important perquisites to establish an enterprise. Availability of capital facilitates for the entrepreneur to bring together the land of one, machine of another and raw material of yet another to combine them to produce goods. Capital is therefore, regarded as lubricant to the process of production. An accumulated experience suggests that with an increase in capital investment, capital-output ratio also tends to increase. This results in increase in profit which ultimately goes to capital formation.

Labor: The quality rather quantity of labor is another factor which influences the emergence of entrepreneurship. Most less developed countries are labor rich nations owing to a dense and even increasing population. But entrepreneurship is encouraged if there is a mobile and flexible labour force and, the potential advantages of low-cost labor are regulated by the deleterious effects of labor immobility. The considerations of economic and emotional security inhibit labor mobility.

Raw Materials: The necessity of raw materials hardly needs any emphasis for establishing any industrial activity and its influence in the emergence of entrepreneurship. In the absence of raw materials, neither any enterprise can be established nor can an entrepreneur be emerged. Of course, in some cases, technological innovations can compensate for raw material inadequacies. The Japanese case, for example, witnesses that lack of raw material clearly does not prevent entrepreneurship from emerging but influenced the direction of entrepreneurship. In fact, the supply of raw materials is not influenced by them but becomes influential depending upon other opportunity conditions. The more favorable these conditions are, the more likely is the raw material to have its influence of entrepreneurial emergence.

Infrastructure: Expansion of entrepreneurship assumes properly developed communication and transportation facilities. It not only helps to enlarge the market, but expand the horizons of business too. Take for instance, the establishment of post and telegraph system and construction of roads and highways in India. It helped considerable entrepreneurial activities which took place in the 1850s. Apart from the above factors, institutions like trade/ business associations, business schools, libraries, etc. also make valuable contribution towards promoting and sustaining entrepreneurship in the economy.

Market: The fact remains that the potential of the market constitutes the major determinant of probable rewards from entrepreneurial function. Frankly speaking, the proof of all production lies in consumption, i.e., marketing. The size and composition of market both influence entrepreneurship in their own ways. Practically, monopoly in a particular product in a market becomes more influential for entrepreneurship than a competitive market. However, the disadvantage of a competitive market can be cancelled to some extent by improvement in transportation system facilitating the movement of raw material and finished goods, and increasing the demand for producer goods.

Paul H. Wilken claims that instances of sudden rather than gradual improvement in market potential provide the clearest evidence of the influence of this factor. He refers to Germany and Japan as the prime examples where 'rapid improvement in- market was followed by rapid entrepreneurial appearance.

Political Environment:

Political environment constitutes of 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 businessmen must scan this environment very carefully. The businessman has to make changes in his organization 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 Coca Cola 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 Cyberabad instead of Hyderabad.

b) After the economic policy of liberation and globalisation, the foreign companies got easy entry in India. As a result the Coca Cola Company 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-

1. Present political system
2. Constitution of the country
3. Profile of political leaders
4. Government intervention in business
5. Foreign policy of government
6. Values and ideology of political parties

Political system should be

1. Stable
2. Honest
3. Efficient
4. Dynamic

Factors affecting political instability

- Civil war
- Declaration of emergency in the country
- Changes in the form or structure of administration of Govt.

Relationship between business and government

- Responsibility
- Accountability
- Duty

Responsibilities of business towards government:

- Regular payment of taxes
- Voluntary programmes
- Sponsoring social welfare programmes
- Environmental preservation
- Promoting education
- Assistance in drought, flood etc.
- Providing Feedback information

- Government contracts
- Providing service to the government through becoming member in advisory boards Corporate contributions to the political activities

Responsibilities of Government towards business:

- Political institutions
- Provision of peaceful atmosphere
- Provision of a system of money and credit
- Balanced development and growth
- Provision of basic infrastructure
- Provision of information
- To assist small scale industries
- Transfer of technology
- Competition with private sector
- Licensing and inspection
- Protection from foreign competition

Natural Environment

Natural environment means all living and non-living things that are naturally on Earth. In a narrow sense, it is an environment that is not influenced by human. The environment that is influenced by humans can be called "the built environment" or cultural landscape. One of the macro factors that affect business is Natural Environment of that particular business. Natural environment is the group of natural resources which is used by business. Suppose, one business is of manufacturing. You know, from where will it get its raw material? For producing goods, manufacturing business gets all raw materials from nature. All agricultural input will use in manufacturing. His machines are also made by nature's metals. His used energy is also from natural gas or diesel oil or electricity which comes from nature.

In business, when we use these natural resources without any limit, natural environment changes. Global warming, floods, famines, tsunami and earth quake are its result. So, now it is the duty of business to protect this natural environment. It should support for planting more and more trees. It also stops to misuse of natural resources. After this, it can create co-ordination with nature. Business cannot operate without the essential inputs and essential ecosystem services that are provided by the natural environment, and so its treatment of the natural environment is one of the two keys to the sustainability of business. Businessmen must consider the natural environment of the area before establishing their business.

BUSINESS ENVIRONMENT

A business doesn't exist in a vacuum. Environmental forces can affect businesses positively by driving sales, or they can cause negative effects by increasing the cost of goods sold or by increasing a business's overhead. A business depends upon its ability to generate a profit despite the external factors affecting it. While most environmental forces may be outside of a company's control, it can still succeed as long as the potential impacts of such forces are recognized and a plan is put into place to mitigate these effects.

Natural Environmental Factors That Affect Business-

Environmental Regulations: Regulating business activities is one way government agencies protect the environment. Businesses must meet certain standards that help to reduce any adverse effects a company's activities have on the environment. As a result, natural environmental factors, such as clean water and clean air, dictate how companies conduct their day-to-day operations.

Infrastructure and Deliverability: One of the key environmental forces a business must deal with it is its ability to deliver its product. While a business can control some factors, such as vehicles and transportation, it can't control those forces that exist within the infrastructure (including the transportation network of roads and railroads). The infrastructure must include roads adequate to support the area's traffic.

Availability of Resources: Production depends upon the availability of resources needed to manufacture a product. If resources are limited due to low crop production, for example, a business may suffer. Climatic environmental forces can affect how successful a business is and whether or not it can keep up with demand. Businesses dependent on non renewable resources such as minerals or fossil fuels are more likely to be negatively impacted by these environmental forces.

Natural Disasters: Perhaps the most unpredictable of the environmental forces that affect businesses is the occurrence of natural disasters. Flooding is the most common and widespread of natural disasters that can potentially affect businesses.

Demographic environment:

Changes in demographics are another external factor that can impact businesses. Shifts in demographics occur for a myriad of reasons, sometimes displacing a critical client base. Cost of living, the environment, or lack of green space may cause people to move elsewhere. For a business, this environmental force can have a tremendous effect. Likewise, a positive shift may occur, resulting in an increase in potential clients and customers.

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 the legal environment. The common legislation passed which has affected the business transactions are Trade Mark Act, Essential Commodity Act, Weight and Measures Act, etc. Most of the time legal Environments put constraints on the businessman but sometimes they provide opportunities too.

The common instances of Indian Legal Environment which have influenced business transactions recently are-

1. Deregulation of capital market has made it easy for businessman to collect capital from primary market.
2. Removal of control from the foreign exchange and liberation in investment is encouraging foreign investors and NRIs to invest in Indian capital market.
3. Advertisements of alcoholic products are prohibited.
4. Compulsory to statutory warning in Tobacco production.
5. Relicensing policy of industries.

<u>Some aspects of Legal Environment:</u>

1. Various laws and legislative acts.
2. Legal policies relating to licensing.
3. Legal policies relating to foreign trade.
4. Statutory warning to be printed on label.
5. Foreign Exchange Regulation and Management Act.
6. Laws to keep a check on Advertisements.

Indian Judiciary System

Judiciary

The Indian judiciary is known for its independence and extensive powers. The High Court or the Supreme Court in exercise of their constitutionally conferred writ jurisdiction are empowered strike down legislation on the ground of unconstitutionality. They can and fairly routinely intervene with executive action as well on the ground of unreasonableness or unfairness or arbitrariness in State action.

Indeed Courts can even strike down an amendment to the Constitution on the ground that it violates the basic structure of the Constitution. Besides, the High Courts and the Supreme Court have adapted an activist mantle, which goes under the name of Public Interest Litigation, where under they can intervene with governmental policies if it may adversely impact the public at large or the public interest is such that it requires Court intervention.

The Bar

India has a unified all India Bar which means that an advocate enrolled with any State Bar can practice and appear in any court in the length and breadth of the country, including the Supreme Court of India. Foreign lawyers are not permitted to appear in courts and the entry of foreign law firms into India (for non – court matters) has not yet been permitted though it is currently being debated and considered. However, they can appear in arbitrations.

Court Practice and Procedure: The influence of the British Judicial System which India imbibed continues in significant aspects. The official language for court proceedings in the High Court & the Supreme Court is English. The procedural law of the land as well as most commercial and corporate laws is modeled on English laws. English case law is regularly referred to and relied upon in courts. There is great emphasis on oral arguments. Almost all matters are heard extensively in open Court. Advocates are seldom restrained in oral arguments and complex hearings may well take days of arguments to conclude. Specialization is relatively a new phenomenon and most lawyers have a wide-ranging practice.

TECHNOLOGICAL ENVIRONMENT:

Technological environment refers to the changes taking place in the methods of production, use of new equipments 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.

J.K. Gilbert defines technology as a “systematic application of scientific or other organized knowledge to practical task”. Technology helps convert ideas into useful products.

Some aspects of Technological Environment:

1. Various innovations and inventions.
2. Scientific improvements.
3. Developments in IT sector.
4. Import and Export of Technology.
5. Technological Advances in Computers.

Features of technology-

- Used as one of the basic resource as land and human capital
- It is dynamic by nature.
- Its effects are wide spread.
- It is self reinforcing.
- Is a complex system.

BUSINESS ENVIRONMENT

UNIT – III

UNIT- III (BCOMLLB)

Indian Business Environment:

Pre reforms scenario,

New Economic Policy,

Globalization, Privatization, Liberalization,

Multi National Companies (impact) Competitive Market.

Trends in International Business and their impact in India.

Industrial Policy of India:

Industrial policy is a comprehensive package of policy measures which covers various issues connected with different industrial enterprises of the country. This policy is essential for devising various procedures, principles, rules and regulations for controlling such industrial enterprises of the country. The pace, pattern and structure of industrialization in a country is highly influenced by its industrial policy. The industrial policy consists of a philosophy to determine the pattern of industrial development of country, procedures, principles, rules and regulations for the control of industries.

- The policy also incorporates fiscal policy, monetary policy, the tariff policy, labour policy and the Government's attitude towards the public and private sectors of the country.
- Before independence there was no proper policy for determining industrial development of the country.
- It is only after independence a beginning has been made in this direction.
- **Fiscal Policy** is the mechanism by means of which a government makes adjustments to its planned spending and the imposed tax rates to monitor and thus in turn influence the performance of a country's economy.

- **Monetary policy** is a central bank's actions and communications that manage the money supply. That includes credit, cash, checks, and money market mutual funds.
- A **tariff** is a tax on imports or exports between sovereign states. It is a form of regulation of foreign trade and a **policy** that taxes foreign products to encourage or safeguard domestic industry.
- **Labour policy** includes **policies** concerned with relations between employers and employees and those concerned with the employment, training and distribution of workers in the **LABOUR** MARKET.

Industrial Policy, 1948:

On April 6, 1948, the Government of India adopted the industrial policy resolutions for accelerating the industrial development of the country. The policy resolution contemplated a mixed economy which included both the public sector as well as private sector on the industrial front.

This policy divided the various Indian industries into four broad categories:

(a) In this first category of exclusive state monopoly, the manufacture of arms and ammunition, the production and control of atomic energy and ownership and management of railway transport were included.

(b) The second category included coal, iron and steel, aircraft manufacture, ship-building, manufacture of telephone, telegraphs and wireless sets and mineral oil industries. In this category all new factories would be owned and managed by the public sector although the existing units of such industries would continue to be run by the private industrial establishments. Thus, the State would have the exclusive right in setting up of new undertaking included in this category.

(c) The third category of industries included 20 important large scale and basic industries which were kept reserved for the time being to the private sector although the state reserves the right to plan, regulate and control as and when necessary. In this category various industries such as salt, automobiles, tractors, prime movers, heavy chemical, electric engineering, machine tools, fertilizers, electro-chemical industries, rubber manufactures, power and industrial alcohol, non-metals, cotton and woolen textiles, sugar, paper, cement, newsprint, air and sea transport, minerals and industries related to defense were included.

(d) The fourth category comprised of the 'remainder of the industrial field' which was kept open to private sector including both individual as well as co-operative. In this industrial policy, special emphasis was laid on the development of cottage and small scale industries. Besides proper steps were taken to design a suitable tariff policy, taxation policy and also for maintaining sound industrial relation between management and labour. Regarding foreign capital, the industrial policy recognized the need for security and participation of foreign capital and enterprise especially in respect of industrial technique and knowledge for enhancing the pace of industrialization in the country. But the policy was to lay down the foundation of mixed economy with the participation of both public and private sector for accelerating the pace of industrial development in the country.

Industrial Policy Resolution, 1956:

Alter the proclamation of industrial policy, 1948; Indian economy had to face a series of economic and political changes which necessitated the formulation of a fresh industrial policy for the country. In the mean time, the First Five Year Plan was completed and socialistic pattern of society was accepted as the major objective of the country's social and economic policy. Thus, on April 30, 1956, a second Industrial Policy Resolution was adopted in India replacing the policy Resolution of 1948.

Following are some of the important provisions of the 1956 policy:

(i) New Classification of Industries:

In this new policy, industries were re-classified into three schedules.

These schedules were:

(a) Schedule A:

In the schedule A, seventeen industries were included and the future developments of these industries were to be the exclusive responsibility of the State. These industries include arms and ammunition, atomic energy, iron and steel, heavy castings and forgings of iron and steel, heavy machinery, heavy electrical industries, coal, mineral oil, mining; iron ore and other important minerals like, copper, lead and zinc; railway transport, aircraft, ship building, telephone, telegraph and wireless equipment, and generation and distribution of electricity.

Schedule B:

In this schedule 12 industries were placed which will be progressively state- owned. In this schedule, the state would gradually set up new units and the private industries would also be expected to supplement the effort of the state in this regard. These twelve industries include aluminum, other mining industries and other non-ferrous metals not included in the schedule A, machine tools, Ferro alloys and tool, steels, fertilizers, the chemical industry, antibiotics and other essential drugs, synthetic rubber, carbonization of coal, chemical pulp, road transport and sea transport.

(c) Schedule C:

In this schedule all the remaining industries were included and their future development would be left to the initiative and enterprise of the private sector. The state would facilitate and encourage the development of all these industries in the private sector as per the programmes finalized in the Five Year Plans of the country. These industries were controlled by the state in terms of the Industries (Development and Regulation) Act of 1951 and other relevant legislations.

(ii) No water-tight Classification:

It is important to note that the grouping of industries into three schedules was not placed in water-tight compartments. As these classifications remained open, thus the State may start any industry even in schedule C and similarly privately owned units may be permitted to establish industrial units even in schedule A in appropriate cases.

(iii) Fair and Non-discriminatory Treatment for the Private Sector:

The State would facilitate and encourage the private sector industries by ensuring infrastructural facilities like power, transport and other services and provide non-discriminatory treatment to both public and private owned units.

(iv) Encouraging Cottage and Small Scale Industries:

The State would continue to support cottage, village and small scale industries by restricting the volume of production in the large scale industrial units, by imposing differential taxation or by direct subsidies and would concentrate to improve their competitive strength by modernizing the techniques of production.

(v) Removal of Regional Disparities:

In order to secure a balanced development, the policy emphasized to remove regional disparities in respect of industrial development and tries to attain higher standard of living for the people of the country.

(vi) Amenities for Labour:

The Resolution recognized the importance of labour and recommended to associate the workers and technicians with management progressively. The policy stressed the need for improving the living and working conditions of workers and also to raise their standard of efficiency.

(vii) Attitude towards Foreign Capital:

Regarding the foreign capital the resolution maintained the same attitude as enunciated in our Industrial Policy, 1948. The policy recognized the importance of foreign capital and has given clear assurance for the safety and facilities for investment of the foreign investors. Thus the Industrial Policy Resolution, 1956 has made a clear-cut provision for the expansion of both public sector and private sector enterprises in the country in co-ordinated manner with high degree of flexibility in its policies. Further, the policy resulted in the rapid expansion of the public sector in basic and heavy industries of the country.

Industrial Policy Statement, 1977:

In December 1977, the Janata Government announced its New Industrial Policy through a statement in the Parliament.

Following are the main elements of the new policy:

1. Development of Small Scale Industrial Sector:

The main thrust of the new policy was the effective promotion of cottage and small industries widely dispersed in rural areas and small towns. In this policy the small sector was classified into three groups—cottage and household sector, tiny sector and small scale industries.

This policy suggested following measures for the promotion of small scale and cottage industries of the country:

(a) Expanding the list of items from 180 to 807 items.

(b) Establishment of 'District Industries Centre' for the development of cottage and small scale industries.

(c) Revamping Khadi and Village Industries Commission.

(d) Special arrangement for widespread application of suitable technology for small scale and village industries.

2. Areas for Large Scale Sector:

The 1977 Industrial Policy prescribed the following areas for large scale industrial sector:

(a) Basic industries,

(b) Capital goods industries,

(c) High technology industries and

(d) Other industries outside the list of reserved items for the small scale sector.

3. Big Business Houses:

The 1977 Industrial Policy restricts the scope of large business houses so that no unit of the same business group acquired a dominant and monopolistic position in market.

4. Role of the Public Sector:

The new policy prescribed the expansion of the role of public sector especially in respect of strategic goods of basic nature. The public sector was also encouraged to develop ancillary industries and to transfer its expertise in technology and management to small scale and cottage industry sectors.

5. Promotion of Technological Self-reliance through the inflow of technology in sophisticated areas is another feature of the 1977 policy.

6. The policy recommended a consistent line of approach towards sick industrial units of the country.

7. Management-labour Relations:

The new policy of 1977 put emphasis on reducing the occurrence of labour unrest. The Government encouraged the worker's participation in management from shop floor level to board level. But the industrial Policy 1977, is subjected to serious criticism as there was absence of effective measures to curb the dominant position of large scale units and the policy did not envisage any socioeconomic transformation of the economy for curbing the role of big business houses and multinationals.

Industrial Policy of 1980:

On 3rd July, 1980 the Congress (I) Government announced its new industrial policy. This new policy seeks to promote the concept of economic federation, to raise the efficiency of public sector and to reverse trend of industrial production of the past three years and reaffirms its faith in the Monopolies and Restrictive Trade Practices (MRTP) Act and the Foreign Exchange Regulation Act (FERA). While preparing this policy statement, the 1956 resolution was considered as its basis.

Socio-economic Objectives of the Policy:

The industrial policy statement, 1980 has laid down the following objectives:

(i) Optimum utilization of installed capacity;

(ii) Maximizing production and to achieve higher productivity and higher employment generation;

(iii) Correction of regional imbalance through a preferential development of industrially backward areas;

(iv) Strengthening of the agricultural base according to a preferential treatment to agro-based industries and promoting optimum inter-sectoral relationship;

(v) Faster promotion of export-oriented and import substitution industries;

(vi) Promoting economic federalism with an equitable spread of investment over small but growing unit in the rural as well as urban areas; and

(vii) Revival of the economy by removing the infrastructural gaps.

Industries (Development and Regulation) Act, 1951

The Industries (Development and Regulation) Act, 1951 was passed by the Parliament in October 1951 in order to control and regulate the process of industrial development.

The main objectives of the Act were:

(a) To regulate industrial investment and production as per priorities and targets of plan;

(b) To protect small industries from large industries;

(c) To prevent growth of monopoly and concentration of ownerships; and

(d) To attain balanced regional development.

The following are some of the important provisions of the Act which can be broadly classified as restrictive and reformative provisions:

1. Restrictive provisions:

In order to check the unfair practices adopted by industries the following restrictive provisions were made:

(a) Registration and licensing:

Any new industry, whether under private sector and public sector, included in the schedule of this Act must be registered during its establishment. Extension of the existing units also requires government permission.

(b) Enquiry of industries:

The Government has the responsibility to make necessary enquiry against the unsatisfactory performances of any industry whose production has fallen or which is using resources of national importance or which is harming the interests of shareholders and consumers.

(c) Cancellation:

Another restrictive provision is that the government may cancel the registration and license offered to any industry if it has submitted wrong information and failed to set up the project within the stipulated period.

2. Reformative Provisions:

In order to make necessary reforms in those industries, the following reformative measures were undertaken:

(a) Direct regulation or control by government:

Provision had been made to issue directions for reforms of those industries which were showing unsatisfactory performances. In the extreme case the government might take over the management and control of such unit.

(b) Control on price and supply:

Provision was made through this Act to empower the government to regulate and control the prices, distribution and supply of the product produced by any industrial unit included in the schedule of the Act.

(c) Constructive measures:

In order to raise mutual confidence and to elicit co-operation from the workers, the government established a Central Advisory Council along with a number of Development Councils for different products. Initially 37 industries were brought under the purview of the Act and later on their number was raised to 70. Although initially capital investment limit was fixed at Rs. 1 lakh but later on it was decided that any industrial units employing less than 100 workers and maintaining fixed capital less than Rs. 10 lakh should not be brought under the purview of the Act.

Industrial Policy Development in Eighties—Liberalisation Wave:

During eighties, various steps were taken by the Government for liberalizing the industrial policy of the country.

These steps were as follows:

1. Exemption from Licensing:

In order to liberalise the industries, the exemption limit of licensing was continuously enhanced from non-MRTP and non-FERA companies. The exemption limit which was Rs. 3 crores in 1978, gradually enhanced to Rs. 5 crores in 1983 and then substantially to Rs. 55 crores for those projects to be located in non-backward areas and to Rs. 50 crores for those projects located in backward areas in 1988-89.

2. Relaxation to MRTP and FERA Companies:

The government made provision for various relaxations to those companies under MRTP Act (Monopolies and Restrictive Trade Practices Act) and FERA (Foreign Exchange Regulation Act) in order to expand industrial production and also to promote exports.

3. Delicensing:

In order to encourage industries, the government delicensed 28 broad categories of industries and 82 bulk drug and their formulations. These industries would now require any registration with the Secretariat for Industrial Approval and thus no licence had to be obtained by these industries under the Industries (Development and Regulation) Act if these industries do not fall within the purview of MRTP Act or FERA, do not produce articles reserved for small scale industries and the undertaking is not located in an urban area. In 1989-90, provision has been made for delicensing of some more industries.

4. Re-endorsement of Capacity:

In order to achieve maximum capacity utilisation, in April 1982, the scheme of capacity re-endorsement was announced. Again in 1986, this scheme was liberalised further to permit those undertakings in availing such facility which achieved 80 per cent capacity utilization (previously 94 per cent). The industries which were not permitted for automatic re-endorsement of capacity were reduced from 77 to 26.

5. Broad Banding Industries:

In 1984, the scheme of broad banding of industries was introduced in order to classify these industries into broad categories. This was done to enable the producers to change their product-mix rapidly in order to match the changing demand pattern.

6. Minimum Economic Scales of Operation:

In 1986 the government introduced the minimum economic scales of operation in order to encourage relations of economies of scale through the expansion of its installed capacities. Till 1989, minimum economic capacities (MECs) were specified gradually for 108 industries and in 1989-90 some more industries were specified under MECs.

7. Development of Backward Areas:

In order to develop backward areas, the government extended the scheme of delicensing in March 1986 to MRTP or FERA Companies engaged in 20 industries in Appendix I for their location in backward areas declared centrally. Later on the scheme was extended to 49 industries.

Again in 1988- 89, the government set up 100 grown centres throughout the country to provide infrastructural facilities to these backward areas. Moreover, in 1988 income tax reliefs were announced for promoting industrialisation of backward areas.

Accordingly, new industries established in notified backward areas were entitled to income tax relief under Section 80HH of I.T. Act by way of 20 per cent deduction from profits for a period of 10 years. Again under Section 80- I of Act, all new industrial undertakings were entitled to income tax relief by way of 25 per cent deduction of the profits for a period of 8 years.

8. Incentives for Export Production:

In order to promote exports, the government announced various concessions in its industrial policy and export (Exim) policy. Again, all 100 per cent export- oriented industries were exempted from Section 21 and 22 of the Act which were set in Free-Trade Zones. Some more industries were identified from export angle which were permitted 5 per cent automatic growth rate annually over and above their normal capacity.

9. Enhancement of Investment of Small Scale and Ancillary Units:

The investment limits for small scale units and ancillary units which was Rs. 20 lakhs and 25 lakhs respectively as per 1980 policy statement, gradually enhanced to Rs. 35 lakhs and Rs. 45 lakhs respectively in 1985 and Rs. 2 lakhs for tiny units.

In 1991, these limits were again raised to Rs. 60 lakhs and Rs. 75 lakhs for both the small scale and ancillary units respectively. Moreover about 200 times which were earlier reserved, were completely de-reserved and kept open for large and medium scale sector.

New Industrial Policy, 1991 and Economic Reforms:

The Congress (I) led by Narasimha Rao Government has announced its new industrial policy on July 24, 1991. In line with the liberalisation move introduced during the 1980s, the new policy radically liberalized the industrial policy itself and de-regulates the industrial sector substantially.

Objectives:

The prime objectives of the new industrial policy are to "unshakle the Indian industrial economy from the cobwebs of unnecessary bureaucratic controls", and to build on the gains already experienced, to correct the distortions or weakness involved in the system, to introduce liberalisation measures in order to integrate Indian economy with world economy, to abolish restrictions on direct foreign investment, to liberate the indigenous enterprise from the restrictions of MRTP Act, to maintain a sustained growth in productivity and employment and also to achieve international competitiveness. Moreover, the policy also made provision for reducing the load of public sector enterprises showing either low rate of return or incurring losses over the year.

Thus to fulfill these objectives, the government introduced a series of initiatives in the new industrial policy in the following areas:

1. Abolition of Industrial Licensing:

In order to liberalise the economy and to bring transparency in the policy, the new industrial policy has abolished the system of industrial licensing for all industrial undertaking, irrespective of the level of investment, except for a short list of industries related to security and strategic concerns, social reasons, hazardous chemicals and overriding environmental concerns and items of elitist consumption. As per Annexure II of the policy there are only 18 industries for which licensing are compulsory.

These include:

(1) Coal and lignite;

(2) Petroleum (other than crude) and its distillation products;

(3) Distillation and brewing of alcoholic drinks;

(4) Sugar;

(5) Animal fat and oils;

(6) Cigars and Cigarettes of tobacco and manufactured tobacco substitutes;

(7) Asbestos and asbestos based products;

(8) Plywood and decorative veneers and other wood based products;

(9) Raw hides and skins, leather, chamois leather and patent leather,

(10) Tanned and dressed skins;

(11) Motor car;

(12) Paper and newsprint except bagasse based units;

(13) Electronic aerospace and defence equipment—all types;

(14) Industrial explosives;

(15) Hazardous chemicals;

(16) Drugs and Pharmaceuticals;

(17) Entertainment Electronics;

(18) White goods such as domestic refrigerators, washing machines, microwave ovens and air conditioners.

2. Policy regarding Public Sector:

In-spite of its huge investment, the public sector enterprises could yield a very low rate of return on capital invested. A good number of public sector enterprises are incurring huge amount of loss regularly. Thus, in order to face the situation, the Government should restructure the potentially viable units.

The priority areas for the growth of future public sector enterprises included—essential infrastructure, exploration and exploitation of minerals and oil, technology development and products with strategic consideration. The new policy has now reduced the list of industries under public sector to 8 as against the 17 industries reserved earlier as per 1956 policy. The industries which are now removed from the list of reserved industries include—iron and steel, electricity, air transport, ship building, heavy machinery industries, telecommunication cables and instruments.

Those 8 industries which remained in the reserved list for the public sector are :

(1) Arms and ammunition and allied defense equipment, defense aircraft and warships;

(2) Atomic energy;

(3) Coal and lignite;

(4) Mineral oil;

(5) Mining of iron ore, manganese ore, chrome, gypsum, sulphur, gold and diamond;

(6) Mining of copper, lead, zinc, tin, molybdenum and wolfarm;

(7) Minerals specified in the schedule to the Atomic Energy (Control of Production and Use) Order, 1953; and

(8) Rail transport.

3. MRTP Limit:

As per the MRTP Act any firm with assets over a certain size (Rs. 100 crore since 1985) was classified as MRTP firms and such firm was allowed to start only selected industries on a case by case approval. But the government now felt that this MRTP limit has become deleterious in its effects on the industrial growth of the country.

Thus, the new policy states that the pre-entry scrutiny of investment decisions by the so-called MRTP companies will no longer be required. Instead emphasis will be on controlling and regulation of monopolistic, restrictive and unfair trade practices rather than making it necessary for the monopoly houses to obtain approval of the centre for expansion, establishment of new undertaking, merger, amalgamation and take over and appointment of certain director. "The thrust of the policy will be more on controlling unfair or restrictive business practices". Simultaneously, provisions of the MRTP Act will be strengthened in order to enable the MRTP Commission to take appropriate action in respect of monopolistic, restrictive and unfair trade practices.

4. Foreign Investment and Foreign Technology:

From the very beginning, foreign investment in India was regulated by the government. Thus, for any foreign investment or foreign technology agreements, prior approval of the government was necessary. All these were resulting in unnecessary delays and thus hampered the decision making in business.

The new industrial policy thus prepared a specified list of high technology and high investment priority industries (Annexure III) in which automatic permission will be available for direct foreign investment up to 51 per cent foreign equity. The Annexure III included 34 priority industries. Such as metallurgy, boilers and steam generating plants, electrical equipment, telecommunication equipment's, transportation, industrial and agricultural machinery, industrial investments, chemicals, food processing, hotel and tourism industry. In respect of foreign technology agreements automatic permission will be provided in high- priority industry up to a sum of Rs. 1 crore, 5 per cent royalty for domestic sales and 8 per cent of the sale over a 10 year period from the date of agreement or seven years from commencement of production. No permission will be required for hiring foreign technicians or for testing of indigenously developed technology abroad.

5. Location Policy Liberalised:

The new policy mentioned that in location other than cities of more than 1 million population, no industrial approvals from the centre will be required except for industries subject to compulsory licensing. In cities with more than 1 million population, industries other than those of non-polluting in nature, will be located outside 25 kms of its periphery.

6. Abolition of Phased Manufacturing Programmes:

Phased manufacturing programme was enforced in order to increase the pace of indigenization. The new policy has totally abolished such programmes as the government feels due to substantial reforms of trade policy and devaluation of rupee there is no need to enforce such programmes.

7. Removal of Mandatory Convertibility Clause:

From the very beginning a large part of industrial investment was financed by loans from banks and financial institutions that have followed a mandatory convertibility clause in their lending operations for new industrial projects. This has provided an option to convert loans into equity if it was felt necessary by the management. This was an unwarranted threat to private firm. The new industrial policy removed this system and henceforth, financial institutions will not impose this mandatory convertibility clause.

Liberalization, Privatization and Globalization:

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.

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.

Multi National Companies:

At the time of Independence, most of our industries were concerned with consumer goods. Barring two steel plants, we had hardly any capital goods or intermediate goods industries. Today the industrial scene is dominated by petroleum refining, chemicals and pharmaceuticals, light and heavy engineering, steel, man-made fiber manufacture and several other industries. These industries would not have come into existence but for the technical know- how and skills obtained from abroad. The gain is not merely in terms of physical output, but in the training of technicians and developing the skills of modern management.

In an interesting study on "the impact of foreign subsidiaries on India's balance of payments" for the year 1975-76 covering 133 companies (total 171) operating in India Dr. S.K. Goyal has drawn out following conclusions:

(i) Majority of foreign subsidiaries operating in India either belong to the U.K. (68%) or the U.S.A. (15%).

(ii) Most of the foreign subsidiaries have raised financial resources from within India, and the transfer of capital from the parent company has been marginal.

(iii) Nearly all the branches and subsidiaries of foreign companies have accepted the Indianization scheme and a large number of them have already taken measures to reduce the degree of foreign shareholding.

(iv) A number of foreign companies in India are acquiring the character of multi-product and multi-industry enterprises. For instance, the Imperial (now Indian) Tobacco Company (ITC) has recently diversified its activities to hotel industry constructing a chain of hotels all over India.

(v) The assumption that the entry of Transnational Corporation (TNCs) would ensure transfer of sophisticated technology to developing countries has not been found valid in practice.

Characteristics of Multinationals:

(i) Mode of Transfer:

The MNC has considerable freedom in selecting the financial channel through which funds or profits or both are moved, e.g., patents and trademarks can be sold outright or transferred in return through contractual binding on royalty payments. Similarly, the MNC can move profits and cash from one unit to another by adjusting transfer prices on intercompany sales and purchases of goods and services. MNCs can use these various channels, singly or in combination, to transfer funds internationally, depending on the specific circumstances encountered.

(ii) Value for Money:

By shifting profits from high-tax to low-tax nations, MNCs can reduce their global tax payments. In addition, they can transfer funds among their various units, which allow them to circumvent currency controls and other regulations and to tap previously inaccessible investment and financing opportunities.

(iii) Flexibility:

Some to the internationally generated claims require a fixed payment schedule; other can be accelerated or delayed. MNCs can extend trade credit to their other subsidiaries through open account terms, say from 90 to 180 days. This gives a major leverage to financial status. In addition, the timing for payment of fees and royalties may be modified when all parties to the agreement are related.

Competitive market:

A competitive market is one where there are numerous producers that compete with one another in hopes to provide goods and services us, as consumers, want and need. In other words, not one single producer can dictate the market. Also, like producers, not one consumer can dictate the market either. This concept is also true where price and quantity of goods are concerned. One producer and one consumer can't decide the price of goods or decide the quantity that will be produced. A great example of competitive market is farming. There are thousands of farmers and not one of them can influence the market or the price based on how much they grow. All the farmer can do is grow the crop and accept whatever the current price is for that product. They do not get to determine the price they want to sell the crop for.

Competitive markets will emerge under certain circumstances:

The profit motive: Free markets are formed when the possibility of making a profit provides a sufficient incentive for entrepreneurs to enter a market. In simple terms, profits are earned when producers earn and amount of revenue which exceeds the costs of production. However, there are two types of profit to consider - super-normal and normal. Super-normal profit closely fits the layman's view of profit - namely, when total revenue exceeds total costs. However, the idea of normal profit is unique to economics, and is derived by entrepreneurs when total revenue equals total costs.

Diminish ability of private goods

Markets are more likely to form when wants and needs are best satisfied by the production of private goods. Private goods have some important characteristics, the first being that as more of a product is consumed fewer are available for others. For example, the purchase of a laptop computer by one consumer means there is one less available for other consumers. This is referred to as the principle of diminish ability.

Rivalry

In addition, free markets are only likely to form when consumers are forced to compete with each other to obtain the benefit of the product. For example, to be guaranteed a good seat at a restaurant, or at a music venue, consumers need to book in advance, or get there early - there is clearly a need to be competitive to secure the benefit of the good or service.

Excludability

For markets to form it is essential that consumers can be excluded from gaining the benefit that comes from consumption. Consumers may be excluded for many reasons, including if they are unable or unwilling to pay. A storekeeper can stop consumers gaining the benefit of a product if they cannot pay.

For example, a market for 'live' music can only be formed if the musicians perform in a venue where access is denied to those without a ticket, or where the songs can be recorded and sold through stores, via downloads, or through other media.

Reject ability

- For markets to form it is also necessary that consumers can reject goods if they do not want or need them.
- For example, a supermarket employee could not place an unwanted product into a shopper's basket and expect the shopper to pay for it at the checkout.

Positive marginal cost

In supplying private goods a marginal cost is created. The use of scarce resources creates a marginal cost and as more consumers enter the market, more is produced and a marginal cost continues to be created. As we will see, with public goods no further marginal cost exists once the good is supplied to one consumer.

Ability to charge

When the conditions of diminish ability, rivalry, excludability, reject ability and a positive marginal cost are present it is possible for a market to form because the seller can charge for the product and the buyer can accept or reject that price. It is also possible for the buyer to make a bid for a good or service, and for it to be accepted or rejected by the seller. The ability to charge at the point of consumption is central to market formation.

Major Trends in International Business:

Growing Emerging Markets

Developing countries will see the highest economic growth as they come closer to the standards of living of the developed world. If you want your business to grow rapidly, consider selling into one of these emerging markets. Language, financial stability, economic system and local cultural factors can influence which markets you should favor.

Population and Demographic Shifts

The population of the industrialized world is aging while many developing countries still have very youthful populations. Businesses catering to well-off pensioners can profit from a focus on developed countries, while those targeting young families, mothers and children can look in Latin America, Africa and the Far East for growth.

Speed of Innovation

The pace of innovation is increasing as many new companies develop new products and improved versions of traditional items. Western companies no longer can expect to be automatically at the forefront of technical development, and this trend will intensify as more businesses in developing countries acquire the expertise to innovate successfully.

More Informed Buyers

More intense and more rapid communications allow customers everywhere to purchase products made anywhere around the globe and to access information about what to buy. As pricing and quality information become available across all markets, businesses will lose pricing power, especially the power to set different prices in different markets.

Increased Business Competition

As more businesses enter international markets, Western companies will see increased competition. Because companies based in developing markets often have lower labor costs, the challenge for Western firms is to keep ahead with faster and more effective innovation as well as a high degree of automation.

Slower Economic Growth

The motor of rapid growth has been the Western economies and the largest of the emerging markets, such as China and Brazil. Western economies are stagnating, and emerging market growth has slowed, so economic growth over the next several years will be slower. International businesses must plan for profitability in the face of more slowly growing demand.

Emergence of Clean Technology

Environmental factors are already a major influence in the West and will become more so worldwide. Businesses must take into account the environmental impact of their normal operations. They can try to market environmentally friendly technologies internationally. The advantage of this market is that it is expected to grow more rapidly than the overall economy.

UNIT – IV

Social responsibility of Business,

Business ethics and the concept of corporate governance,

Factors influencing work ethics and work culture.

Social responsibility of Business:

A large number of significant changes have taken place in social, political, economic and other aspects of modern culture. These changes make it appropriate to re-examine the role of modern business. It is common today to hear speeches or read articles calling for more social consciousness on the part of the business organizations. The demand for greater social awareness from the business organizations is a move and an important part of the society's attempt to make them more responsive to the need of mankind. It is heartening to note that society's changing values and needs are being due importance by the leading business houses of the world. This is obvious from the fact that the business houses are carrying on research and development activities and producing goods and services to provide greater satisfaction to the economic and social development of their nation.

Social Responsibility of business refers to what the business does, over and above statutory requirement, for the benefit of the society.

- It is the manger's responsiveness to public consensus. – **Adolph Berle**.
- It means there cannot be a set of SR applicable to all countries in all times. It will depend on the customs, religion, tradition, level of industrialization and so on.
- According to **Keith Davis**, SR refers to two types of business obligations.

-Socio economic obligation means actions of the organization should not affect the public welfare.

-Socio human obligation means nurture and development of human values.

DIFFERENT VIEWS ON SR:

Communist view:

They are suggesting imposition of social responsibilities on business through laws of the states as organization will not satisfy the society if not levied on them by force.

Capitalist view:

Businessmen should go with the business of producing quality goods & services efficiently and leave the solution of social problems to the government.

Pragmatic view:

First earn money and then the organization should focus on SR. because a loss making organization is actually social problem of the society. So development of the organization comes first rather than the SR.

Trusteeship view:

It says that earns lots of money but do remember that your wealth is not yours; it belongs to the people. The view was influenced by GITA teaching of APARIGRAHA (non-possession) and SAMBHAWA (equalism).

SR OF BUSINESS TOWARDS DIFFERENT GROUPS :

Towards the consumers and the community:

- With the help of creativity, innovation, technology provides cheap and quality product & services to their customers.
- Deciding priorities of production in the country's interest & conserving natural resources.
- Misleading ads, misbranding of articles with respect to their material, quality, origin etc., selling second hand goods, cartels of the companies, false claims should be stopped.
- Preventing the creation of monopolies.
- Providing after sales service & Eco-friendly production.
- Achieving better PR & supporting education, slum clearance etc.

Towards Employees and Workers:

- A fair wage to workers as per the standard norms of the industry and the government.
- Smooth selection process without any kind of discrimination on grounds of sex, race, religion & physical appearance.

- Security of job and good quality work life.
- Participative management.
- Freedom, self – respect, self – realizations.
- Providing the opportunities for creative talent and incentives.

Towards Shareholders and other Businesses:

- Should have the internal accountability and transparency.
- Fairness in relations with competitors i.e. competition on some ethics and fair play.

Towards the state:

- To bring the harmony between limited enterprise and wider social interest of the country.
- Avoid active participation in and identification with political party.
- To provide the safeguard against the misbehaving business practices.
- To implement rural uplift and secure balanced development of the country. Maintaining equality of resource allocation and enforce distributive justice.

SOCIAL PERFORMANCE OF BUSINESS IN INDIA :

- ITC afforesting private degraded land to increase the supply of raw material for its paper factory.
- ITC is giving some revenue part to the welfare of child education when the customer purchases a note book of ITC.
- Nestle providing financial and technical assistance for constructing deep-bore well to the milk suppliers at Moga, Punjab.
- Cadbury India, Glaxo, Richardson Hindustan are helping the farmers to grow crops which serve as a raw material for them.
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Need of business assuming social responsibilities:

(i) **Response to Social Demand:** It is a well known fact that business is set up to earn profit by producing goods or rendering services to the members of the society. Thus, the business is the creation of the society in the sense that its primary objective is to fulfil the needs of the members of the society

(ii) **Long-term self-Interest of Business:** There is a growing realization on the part of the enlightened businessmen that it will be in their self-interest to fulfil the demands and the aspirations of the society. People who have a good environment, education, and opportunity make better employees, customers and neighbours for business than those who are poor, ignorant and oppressed. Acceptance of a large measure of responsibility towards the community is, therefore, good business as well as good citizenship.

(iii) **Government Intervention:** If the businessmen do not rise to the occasion in meeting the social responsibilities, the Government will step in and make them assume such responsibilities through legislation

(iv) **Public Image:** The antennas of business managers are turned to the public opinion as good public opinion is a precondition to the success of any business. Therefore, they seek to maintain a proper image of their business in the public mind by assuming social responsibilities.

(v) **Socio-Cultural Norms:** A business operates within a set-up of socio-cultural norms and restraints. No society will allow a business to maximize its profits at the cost of the society. It requires the business to respond to social obligations.

(vi) **Consciousness among Consumers:** The consumers of today are well informed. They accept higher quality products at reasonable rates from the business. They can organize themselves in case a business resorts to malpractices such as adulteration and black marketing.

(vii) **Strong Trade Unions:** The level of education among the workers has been increasing. They understand the need of organizing themselves into unions to advance their economic and social interests. The government has also enacted social security measures due to which it has become difficult for the business houses to ignore the interests of the work force.

Business Ethics

Ethics are rules that help us tell the difference between right and wrong. They encourage us to do the right thing.

What is Ethical Behavior?

Ethical behavior is conduct that conforms to ethics—individual beliefs and social standards about what is right and good.

Values tell us what is important. They help us make decisions about right and wrong.

Morals are rules we use to decide what is good or bad.

Why is it important?

Ethics influence and contribute to:

- Employee commitment.
- Investor and customer loyalty and confidence.
- Legal problems and penalties.
- Customer satisfaction.
- The ability to build relationships with stakeholders.

- Cost control.
- Performance, revenue, and profits.
- Reputation and image.

Ethical Issues Relating to Business:

Honesty—communication and behavior consistent with facts

- Disclosure of information
- Promises/commitments
- Laws and professional standards
- Representation of others like shareholders (applies to board members)

Unfair competition

- Refrain from bribes and excessive gifts (that sway judgment)
- Comply with "anti-trust" laws (these relate to pricing, monopolistic practices)

Just compensation

- Respect intellectual property (product piracy)
- Treat employees fairly

Respecting rights of others

- Treat others with fairness and respect regardless of age, religion, ethnic group,
- sex, economic status, etc., especially children, women, and subordinates
- Respect the community you operate in by paying fair share of economic costs
- Respect others and future generations by treating the environment well

A Crisis in Business Ethics:

- Consumer trust of businesses is declining
- No sector is exempt from ethical misconduct
- Stakeholders determine what is ethical/unethical

  -Investors

  - Employees

  -Customers

  -Interest groups

  -Legal system

  -Community

Ethical culture:

- Describes the component of corporate culture that captures the values and norms that an organization defines as appropriate conduct.
- Creates shared values

Goal is to:

- Minimize need for enforced compliance
- Maximize utilization of principles/ ethical reasoning

What Role Should Ethics Play in Business?

- Business ethics are based on society's ethics and those of the people who work for and buy from them.

A Code of Ethics

- Some companies write a **code of ethics**, a document that explains specifically how employees should respond in certain situations.
- Canadian laws address acceptable business behaviors. However, businesses can still behave unethically without breaking these laws

How Can Businesses Resolve Ethical Dilemmas?

A **dilemma** is a situation where a difficult choice must be made between two or more options.

An **ethical dilemma** is a moral problem with a choice between potential right and wrong. Some questions to consider are

- Who will be helped by what you do?
- Who will be hurt by what you do?
- What are the benefits and problems of such a decision?
- Will the decision survive the test of time?

Whistle-blowing

Whistle-blowing happens when an employee informs officials or the public about an illegal or ethical violation.

What Happens When People Do Not Behave Ethically?

When an individual acts unethically, his or her behavior will most likely harm others. The individual could also be sent to jail for his or her actions. Major ethical issues include fraud, accounting scandals, and insider trading.

Fraud

Fraud is a crime of lying or pretending. Some businesses mislead consumers and trick them to buy their products or services. *The Competition Act* 2002 bans such fraud and deceptive business practices and defines these as

- false or misleading advertising
- "bait and switch" selling
- double ticketing items for sale

Corporate Governance refers to the way a corporation is governed. It is the technique by which companies are directed and managed. It means carrying the business as per the stakeholders' desires. It is actually conducted by the board of Directors and the concerned committees for the company's stakeholder's benefit. It is all about balancing individual and societal goals, as well as, economic and social goals. Corporate Governance is the interaction between various participants (shareholders, board of directors, and company's management) in shaping corporation's performance and the way it is proceeding towards. The relationship between the owners and the managers in an organization must be healthy and there should be no conflict between the two.

Corporate Governance deals with the manner the providers of finance guarantee themselves of getting a fair return on their investment. Corporate Governance clearly distinguishes between the owners and the managers. The managers are the deciding authority. In modern corporations, the functions/ tasks of owners and managers should be clearly defined, rather, harmonizing. Corporate Governance deals with determining ways to take effective strategic decisions. It gives ultimate authority and complete responsibility to the Board of Directors. In today's market-oriented economy, the need for corporate governance arises. Also, efficiency as well as globalization is significant factors urging corporate governance. Corporate Governance is essential to develop added value to the stakeholders.

Corporate Governance ensures transparency which ensures strong and balanced economic development. This also ensures that the interests of all shareholders (majority as well as minority shareholders) are safeguarded. It ensures that all shareholders fully exercise their rights and that the organization fully recognizes their rights. Corporate Governance has a broad scope. It includes both social and institutional aspects. Corporate Governance encourages a trustworthy, moral, as well as ethical environment. **'Good corporate governance is simply 'good business'**

OBJECTIVES of Corporate Governance:

- Adequate disclosures and effective decision making to achieve corporate objectives;
- Transparency in business transactions;
- Statutory and legal compliances;
- Protection of shareholder interests;
- Commitment to values and ethical conduct of business.

Benefits of Corporate Governance

1. Good corporate governance ensures corporate success and economic growth.
2. Strong corporate governance maintains investors' confidence, as a result of which, company can raise capital efficiently and effectively.
3. It lowers the capital cost.
4. There is a positive impact on the share price.
5. It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organization.

6. Good corporate governance also minimizes wastages, corruption, risks and mismanagement.
7. It helps in brand formation and development.
8. It ensures organization in managed in a manner that fits the best interests of all.

Work Ethics

What are work ethics?

Work ethics include not only how one feels about their job, career or vocation, but also how one does his/her job or responsibilities. This involves attitude, behaviour, respect, communication, and interaction; how one gets along with others. Work ethics demonstrate many things about whom and how a person is. Work ethics involve such characteristics as honesty and accountability. Essentially, work ethics break down to what one does or would do in a particular situation.

The begging question in a situation involves what is right and acceptable, and above board, versus what is wrong, underhanded, and under the table. Throughout the last few years, there have been companies whose work ethic -- honesty, integrity and accountability -- have been rather shady and have a rather negative impact on other people. This has involved people looking the other way when people have done something questionable, or thinking it would not matter. Work ethics, such as honesty (not lying, cheating, and stealing), doing a job well, valuing what one does, having a sense of purpose and feeling/being a part of a greater vision or plan is vital.

Work ethics are intrinsic; they come from within.

- Workers exhibiting a good work ethic in theory should be selected for better positions, more responsibility and ultimately promotion. Workers who fail to exhibit a good work ethic may be regarded as failing to provide fair value for the wage the employer is paying them and should not be promoted or placed in positions of greater responsibility.

Factors affecting work ethics:

Integrity:

- Integrity stretches to all aspects of an employee's job.
- An employee with integrity fosters trusting relationships with clients, co workers and supervisors.
- Co workers value the employee's ability to give honest feedback.
- Clients trust the employee's advice.
- Supervisors rely on the employee's high moral standards, trusting him not to steal from the company or create problems.

Sense of Responsibility:

- A strong sense of responsibility affects how an employee works and the amount of work he/she does.
- When the employee feels personally responsible for his/her job performance, he/she shows up on time, puts in his/her best effort and completes projects to the best of his/her ability.

Emphasis on Quality:

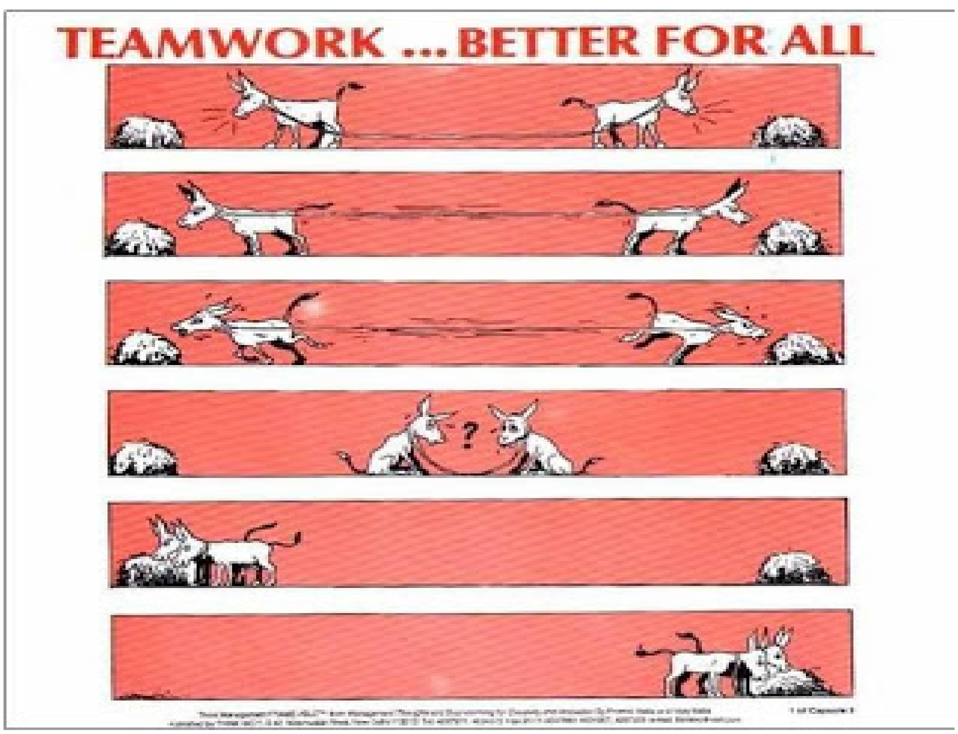
- Some employees do only the bare minimum, just enough to keep their job intact.
- Employees with a strong work ethic care about the quality of their work.
- They do their best to produce great work, not merely churn out what is needed.
- The employee's commitment to quality improves the company's overall quality.

Discipline:

- It takes a certain level of commitment to finish your tasks every day.
- An employee with good discipline stays focused on his goals and is determined to complete his assignments.
- These employees show a high level of dedication to the company, always ensuring they do their part.

Sense of Teamwork:

- Most employees have to work together to meet a company's objectives.
- An employee with a high sense of teamwork helps a team meet its goals and deliver quality work.
- These employees respect their peers and help where they can, making collaborations go smoother.



Leadership:

- Leaders are models and mentors to their followers therefore they follow the path way set by their leaders.
- In a large organisation the top level managers or CEO are considered to be the executive and supervisory leader.
- The CEO should have strong commitment towards ethics and ethical conduct and should give a constant leadership in renewing the values of an organisation.
- They play a key role in creating, maintaining and changing the ethical culture.
- It is necessary for the leader to set good examples, and follows ethics.
- One such good leader is JRD Tata who set a good example for his successor and they still follow it.
- Where there are good leaders there will be good ethical practices in business.

Work Culture

An organization is formed to achieve certain goals and objectives by bringing individuals together on a common platform and motivating them to deliver their level best. It is essential for the employees to enjoy at the workplace for them to develop a sense of loyalty towards it. Work culture plays an important role in extracting the best out of employees and making them stick to the organization for a longer duration. The organization must offer a positive ambience to the employees for them to concentrate on their work rather than interfering in each other’s work.

What is work culture?

Work culture is a concept which deals in the study of:

-Beliefs, thought processes, attitudes of the employees.

-Ideologies and principles of the organization.

It is the work culture which decides the way employees interact with each other and how an organization functions. In layman's language work culture refers to the mentality of the employees which further decides the ambience of the organization. An organization is said to have a strong work culture when the employees follow the organization's rules and regulations and adhere to the existing guidelines. However there are certain organizations where employees are reluctant to follow the instructions and are made to work only by strict procedures. Such organizations have a weak culture.

Achieving good work culture:

Employees must be cordial with each other. One must respect his fellow worker. Backbiting is considered strictly unprofessional and must be avoided for a healthy work culture. One gains nothing out of conflicts and nasty politics at work.

Each employee should be treated as one. Partiality leads to de-motivated employees and eventually an unhealthy work culture. Employees should be judged only by their work and nothing else. Personal relationships should take a backseat at the workplace. Don't favour anyone just because he is your relative.

Appreciating the top performers is important. Praise the employees to expect good work from them every time. Give them a pat on their back. Let them feel indispensable for their organization. Don't criticize the ones who have not performed well, instead ask them to pull up their socks for the next time. Give them one more opportunity rather than firing them immediately.

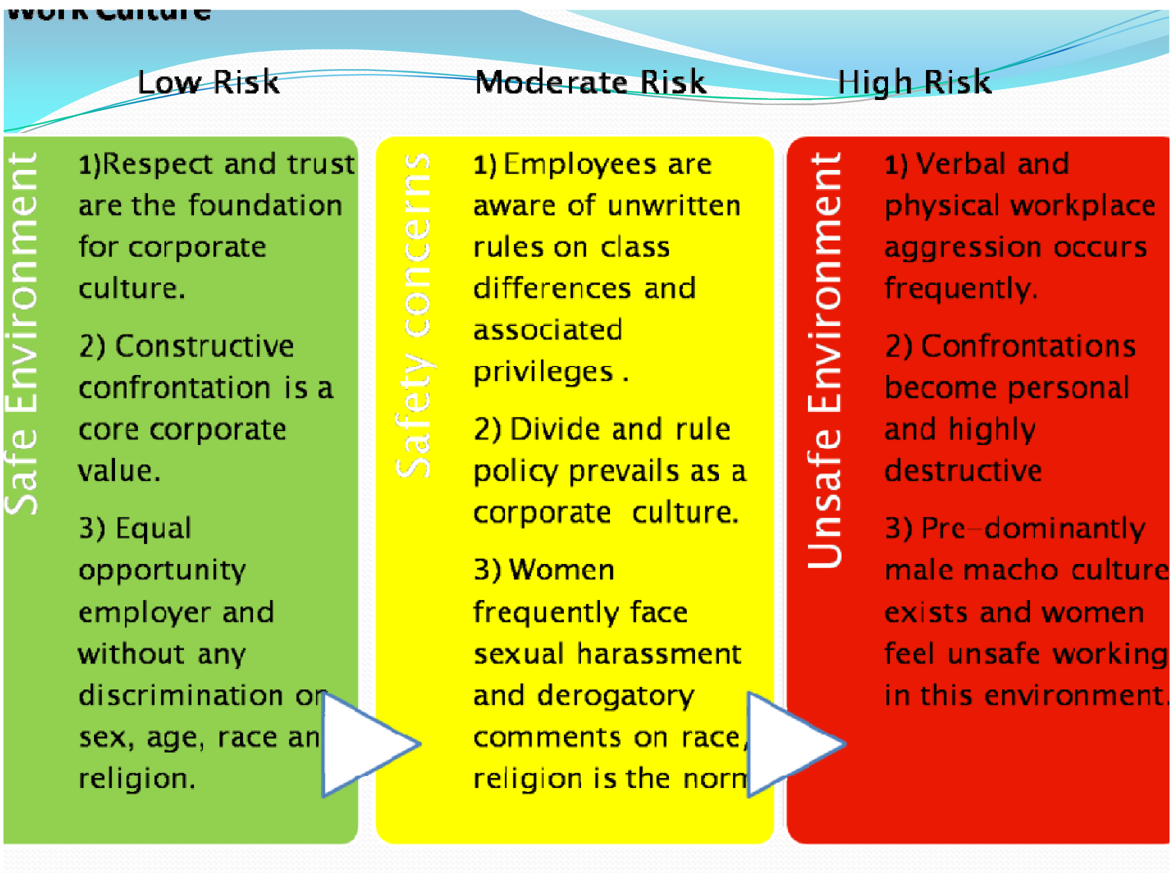
Encourage discussions at the workplace. Employees must discuss issues among themselves to reach to better conclusions. Each one should have the liberty to express his views. The team leaders and managers must interact with the subordinates frequently. Transparency is essential at all levels for better relationships among employees and a healthy work culture.

Organization must have employee friendly policies and practical guidelines. Expecting an employee to work till late night on his birthday is simply impractical. Rules and regulations should be made to benefit the employees. Employees must maintain the decorum of the organization. Discipline is important at the workplace.

The "Hitler approach" does not fit in the current scenario. Bosses should be more like mentors to the employees. The team leaders should be a source of inspiration for the subordinates. The superiors are expected to provide a sense of direction to the employees and guide them whenever needed. The team members should have an easy access to their boss's cabin.

Promote team building activities to bind the employees together.

Conduct training programs, workshops, seminars and presentations to upgrade the existing skills of the employees. Prepare them for the tough times. They should be ready under any odd circumstances or change in the work culture.



UNIT V

Consumerism and Consumer Protection Act, 1986

Consumer movement in India,

Role of voluntary organizations.

Consumer:

Consumer is an individual who buys products or services for personal use and not for manufacture or resale. A consumer is someone who can make the decision whether or not to purchase an item at the store, and someone who can be influenced by marketing and advertisements. Mahatma Gandhi said,

"A consumer is the most important visitor on our premises. He is not dependent on us, we are on him. He is not an interruption to our work; he is the purpose of it. We are not doing a favour to a consumer by giving him an opportunity. He is doing us a favour by giving us opportunity to serve him. But, of late, unfortunately cheating by way of overcharging, black marketing, misleading advertisements, etc has become the common practice of greedy sellers and manufacturers to make unreasonable profits. In this context, it is the duty of the government to confer some rights on consumers to safeguard their interests

Consumer awareness:

Consumer awareness is about making the consumer aware of his/her rights. It is a marketing term which means that consumers are aware of products or services, its characteristics and the other marketing “Ps” (place to buy, price, and promotion).

Though the first consumer movement began in England after the Second World War, a modern declaration about consumer’s rights was first made in the United States of America in 1962, where four basic consumer rights (choice, information, safety and to be heard) were recognized. Ralph Nadar, a consumer activist, is considered as the father of consumer movement. March 15 is now celebrated as the World Consumer Rights Day. The United Nations in 1985 adopted certain guidelines to achieve the objectives of maintaining protection for consumers and to establish high level ethical conduct for those engaged in production and distribution of goods and services.

Consumerism:

Organized-efforts by individuals, groups, and governments to help
Protect consumers from policies and practices that infringe consumer rights to fair business practices.

- "Consumerism" is the concept that consumers should be informed decision makers in the marketplace. Practices such as product testing make consumers informed.
- "Consumerism" is the concept that the marketplace itself is responsible for ensuring economic justice and fairness in society. Consumer protection policies and laws compel manufacturers to make products safe.
- "Consumerism" refers to the field of studying, regulating, or interacting with the marketplace. The consumer movement is the social movement which refers to all actions and all entities within the marketplace which give consideration to the consumer.
- The term "consumerism" has also been used to refer to something quite different called the *consumerists movement*, consumer protection or consumer activism, which seeks to protect and inform consumers by requiring such practices as honest packaging and advertising, product guarantees, and improved safety standards.
- In this sense it is a movement or a set of policies aimed at regulating the products, services, methods, and standards of manufacturers, sellers, and advertisers in the interests of the buyer.

The most common business malpractices leading to consumer exploitation-

(a) Sale of adulterated goods.

(b) Sale of spurious goods i.e., selling something of little value instead of the real product.

(c) Sale of sub-standard goods i.e., sale of goods which do not confirm to prescribed quality standards.

(d) Sale of duplicate goods.

(e) Use of false weights and measures leading to underweight.

(f) Hoarding and black-marketing leading to scarcity and rise in price.

(g) Charging more than the Maximum Retail Price (MRP) fixed for the product.

(h) Supply of defective goods.

(I) Misleading advertisements i.e., advertisements falsely claiming a product or service to be of superior quality, grade or standard.

(j) Supply of inferior services i.e., quality of service lower than the quality agreed upon.

Consumer protection:

Laws are designed to ensure fair trade competition and the free flow of truthful information in the marketplace. The laws are designed to prevent businesses that engage in fraud or specified unfair practices from gaining an advantage over competitors and may provide additional protection for the weak and those unable to take care of themselves. Consumer Protection laws are a form of government regulation which aim to protect the rights of consumers.

Concept of consumer protection:

Consumer protection means safeguarding the interest and rights of consumers. In other Words, it refers to the measures adopted for the protection of consumers from unscrupulous and unethical malpractices by the business and to provide them speedy redressal of their Grievances.

WHAT IS A COMPLAINT?

"Complaint" means any allegation in writing made by a complainant that :

I. An unfair trade practice or a restrictive trade practice has been adopted by any trader or service provider;

II. The goods bought by him or agreed to be bought by him suffer from one or more defects ;

III. The services hired or availed of or agreed to be hired or availed off by him suffer from deficiency in any respect;

IV. A trader or service provider as the case may be has charged for the goods or for the services mentioned in the complaint, a price in excess of the price

a) fixed by or under any law for the time being in force;

b) displayed on the goods or any package containing such goods;

c) displayed on the price list exhibited by him by or under any law for the time being in force;

d) Agreed between the parties.

V. Goods which will be hazardous to life and safety when used are being offered for sale to the public –

a) In contravention of any standards relating to safety of such goods as required to be compiled with, by or under any law for the time being in force;

b) If the trader could have known with due diligence that the goods so offered are unsafe to the public;

VI. Service which are hazardous or likely t be hazardous to the life and safety of the public when used, are being offered by the service provider which such person could have known with due diligence to be injurious to life and safety.

CONSUMER DISPUTE REDRESSAL AGENCIES:

1) A Consumer Dispute Redressal Forum at the District level.

2) A Consumer Dispute Redressal Commission at the State level.

3) A National Consumer Dispute Redressal Commission at national level.

JURISDICTION

Forum / Commission	Where the value of the goods or services and the compensation, if any claimed,
District Forum	Does not exceed Rs. 20 lakhs
State Commission	Rs. 20 lakhs and above but not exceeding One Crore
National Commission	Above One Crore
Besides, State and National Commission have appellate jurisdiction also.	

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FILING OF COMPLAINTS:

A complaint may be filed by

a) The consumer to whom the goods are sold or services are provided

b) Any recognized consumer association

c) One or more consumers with same interest

d) The central government or state government

FILING OF COMPLAINTS

The Fee for filing the Complaint for the district forum is as under

Sr. No.	Value of Goods / Service and Compensation	Amount of Fees
1)	Upto Rs. 1 lakh rupees	Rs. 100
2)	Rs. 1 Lakh and above but less than Rs.5 lakhs	Rs. 200
3)	Rs. 5 Lakhs and above but less than Rs. 10 lakhs	Rs. 400
4)	Rs. 10 lakhs and above but less than Rs. 20 lakhs	

The fees shall be paid by Cross demand Draft drawn on a nationalized bank or through crossed Indian postal order drawn in favour of the Registrar of the Sate Commission and payable at the place of the State Commission (w.e.f. 5.3.2004.)

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Consumer Movement in India:

India's history reveals that in various periods and regimes of different kings and dynasties prior to the British rule, there were enactments to punish the dishonest and unfair traders and producers. The laws of Manu and Chanakya's 'Arthasastra' also refer to the punishments to be awarded to dishonest traders. The British introduced in India laws such as the Sale of Goods Act, Weights and Measurements Act which were being followed in England. Some organized effort to protect consumers from the middlemen was made in the 1940s by eminent freedom fighters such as Sri. Tanguturi Prakasam, Sri C. Rajagopalachari, etc. in Southern India.

They started consumer co-operative stores to retail essential commodities. This became a social movement and the concept of consumer co-operatives spread to different parts of the country. Today, consumer organizations such as the Mumbai Grahak Panchayat in Mumbai are continuing this approach to consumer welfare by organizing the procurement and distribution of essential items to their members.

The origin and growth of the consumer movement in India which has many similarities to the movements elsewhere, can be divided into three significant stages-

The first stage constitutes the 1960s in which organisations such as the Consumer Guidance Society of India (Bombay) were formed to inform and educate consumers on the quality of goods and services and to conduct simple tests on goods of daily consumption.

During the second phase, 1970-1980, shortages in the supply of essential commodities and the unsatisfactory functioning of the Public Distribution System (PDS) led activists to form consumer organizations in their towns and localities to ventilate their grievances to the authorities concerned. Several such organizations which were formed between 1970 and 1980 were primarily concerned with the problems of inflation, food adulteration and the Public Distribution System. These organizations served a very useful purpose as voluntary vigilance groups in the market place.

The third phase of growth covering the period from 1981 to 1990 signifies expansion and consolidation of the consumer movement in India, especially after 1986. With the enactment of the Consumer Protection Act, 1986, there has been a spurt in the number of new organizations in the country. We can certainly say that the consumer movement in India has come of age. Beginning with less than 10 organizations in 1965, we had by 1996 established over 900 consumer organizations across the country. This is the largest number of consumer organizations in any country in the world.

Features of Consumer Movement:

1. It is basically a protest movement.
2. It is a mass movement in the sense that masses are the general body of consumers.
3. It is generally a non-official movement. Public and voluntary consumers, organizations initiate the movement.
4. Though it is not a government-sponsored movement, it is recognized and backed up by the Government.

Consumer's Responsibilities:

The consumers have a number of rights regarding the purchase of things, but at the same time they have some responsibilities too. It means that the consumer should keep a few things in mind while purchasing them. They are as follows:

1. Consumer should use his right: Consumers have many rights with regard to the goods and services. They must be aware of their rights while buying. These rights are: Right to safety, Right to be informed, Right to representation, Right to seek redressal, Right to consumer education, etc.

2. Cautious consumer/ do not buy blindly: The consumers should make full use of their reason while buying things. They should not take the seller"s word as final truth. In other words, while buying consumer must get information regarding the quality, quantity, price, utility etc. of goods and services.

3. Filing complaint for the redressal of actual grievances: It is the responsibility of a consumer to approach the officer concerned there is some complaint about the goods purchased. A late complaint may find that the period of guarantee/warrantee has lapsed. Sometimes, consumers ignore the deception of businessmen. This tendency encourages corrupt business practices.

4. Consumer must be quality conscious / Do not compromise on quality: The consumers should never compromise on the quality of goods. Therefore, they should not buy inferior stuff out of greed for less prices. If the consumers behave like this, there cannot be any protection for them from any quarter. It is also the responsibility of the consumers only to buy goods with the ISI, Agmark, Wool mark, etc. printed on them. All these symbols are indicative of the good quality of the goods.

5. Advertisements often exaggerate/Beware of false advertisement: The seller informs the consumer about their things through the medium of advertisement. The sellers exaggerate the quality of their goods. Therefore, it is the responsibility of the consumers to recognize the truth of advertisement.

6. Do not forget to get Receipt and Guarantee/warrantee card: One should always get a receipt or bill for the things purchased. In case a guarantee/warrantee card is also offered by seller, it

should also be taken. In case the goods purchased are of inferior quality or some defects appears and bothers the customers, these documents will be of great help in settling all kinds of dispute with the seller.

7. Do not buy in hurry: The first important responsibility of consumers is that they should not buy in hurry. It means that the consumers should make an estimate of the things they want to buy their along with their quantity required by them. They should also take in consideration the place from where to buy the things.

Voluntary organisations in India-

FEDCOT (federation of consumer organisation in Tamil Nadu)-Fedcot is an umbrella body of more than 350 consumer association in Tamil Nadu. It is the most important and one of the largest consumer organisation in our country. It is a nationwide nongovernmental organisation that is voluntary and non profitable. It works for the protection and development of consumers and for their welfare.

CERC (consumer education and research centre)-It is a nonprofit nongovernmental body that works for the protection of consumer interest by the use of research media and law. It is recognised as a research institute by the government of Gujarat.

CUTS (consumers unity of trust society)-It is a recognised nongovernmental organisation .This organisation operates across India, Africa, Vietnam, United Kingdom. The basic aims of this organisation are consumer protection, trade and development, human development, consumer safety etc.

- Consumer Guidance Society of India
- All India Consumer Protection Organization
- The Consumers Eye India
- There are now more than 800 such organizations India.

Role of Voluntary Organisation:

The **role** of voluntary organizations has become increasingly more significant over the last two decades. There are now more than 800 such **organisations** In India.

They have undertaken various activities as part of the **consumer** movement. They perform several functions, like:

(i) Create awareness about **consumer** rights and educate the general public about **consumer** problems and remedies through seminars, workshops and training programmes.

(ii) Provide legal aid to consumers by way, of assistance in seeking legal remedy.

(iii) Undertake advocacy of consumers' point of view as representative members of **consumer** protection councils and others official boards.

iv) Arrange comparative testing of **consumer** products through theirown testing apparatus or accredited laboratories so as to evaluate the relative qualities of competing brands and publish the test results for the benefit of consumers to become informed buyers.

(v) Publish periodicals and journals to disseminate information among readers about **consumer** problems, legal reporting and other emerging matters of interest. Most of these periodicals do not accept advertisements from business firms.

(vi) Make suggestions and recommend steps which government authorities should consider in policy making and administrative measures adopted in the interest of consumers.

(vii) Some voluntary organizations have successful used Public Interest Litigation (PIL) to enforce **consumer** rights in several cases. In other words, voluntary organizations have filed cases in law courts in the interest of the general public, not for any individual

UNIT – VI

Technology & Business

Features of technology,

Impact of technology,

Technology and society

Economic effects of technology,

Business Process Outsourcing.

Technology & Business:

- According to J.K Galbraith, technology is a systematic application of scientific or other organized knowledge to practical tasks.
- At the micro-level, technology refers to the level of sophistication with which a factory uses inputs such as labor, finance, machines & raw materials to produce output
- Technological environment exerts considerable influence on business. It helps in conversion of ideas into useful products.

During the last 150 years, technology has enabled man to conquer distance, save lives, generate, preserve & distribute energy; discover new materials & substitutes to existing ones, etc. Technology has helped us in many ways – we obtained evidence of another solar system , left dusty foot prints on moon , it also helped us in reading the human genome which has enabled us to cure many diseases.

Technology advancements & inventions have evoked mixed reactions. For Ex. Hydrogen bombs, sub-marine guns have proved to be horrors whereas penicillin, open-heart surgery are wonders. In Iran, protestors use twitter, facebook, instant messaging & cellular phones for destructive purposes . China uses the same technology to quell protesters.

Benefits of Technology in Business:

Speed and Time

Small businesses compete with large businesses by being more swift and agile. Additionally, a small business can respond to change faster than a large business. A hundred years ago, electronic mail did not exist, and the only way to communicate with someone else in another geographical location was by postal service--the farther away your client or supplier, the longer the communication took. Today, with the advent of information technology, information is shared at an astounding rate. This saves time, offering the ability to make decisions faster.

Easier Storage

Technology eliminates the need for double or triple entry systems and reduces the need to file large amounts of paperwork. Now, contracts and customer information can be stored in virtual data warehouses and accessed in minutes, which cuts down on the need to purchase or rent storage space.

Improved Sharing of Information

Technology allows information, whether written or broadcast, to be shared more quickly and with fewer resources. Marketing can be accomplished by placing ads that reach millions of ready buyers on the Internet or through social networking sites. E-learning and other forms of online training have reshaped the readiness of the average small business workforce as employees can listen to classroom lectures and share ideas with classmates from the comfort of their home or office. This eliminates the need for small business to hire training staff.

Automation

Technology allows small businesses to automate certain functions that historically have required the need to hire an employee. For instance, bookkeeping functions now can be handled by software applications such as Quicken and Quick books. The sales function is automated through contact management sites such as Sales Force. This gives the small business owner the ability to focus on strategy and cut down on labor expenses.

Features of technology:

Change – technology forces change on people whether they are prepared for it or not. In the modern society, it has brought so much change that it has created what is called 'future shock' , which means that changes comes so fast and furiously that it approaches the limits of human tolerance and people lose their ability to cope with it.

Effects are wide spread – technology ripples through society until every community is affected by it. People cannot escape it. Even if they travel to remote places, technology is still represented by vapor trials from airplanes flying overhead, microwave communication signals from satellites moving at the speed of light, etc

Self-reinforcing – according to Alvin Toffler, 'Technology feeds on itself. Technology makes more technology possible.' This means that technology acts as a multiplier to encourage its own faster development.

Complex set of knowledge – it is a set of knowledge, ideas and methods and is likely to be the result of a variety of activities both - internal and external.

Impact of technology:

High expectations of consumers – new varieties of products, which are superior in quality, safety and comfort, are to be produced and supplied to the affluent sections of the society. This calls for substantial investments in research and development.

System complexity – technology has resulted in complexity. Modern machines work better and faster, no doubt. But if they fail, they need services of experts to repair. They fail often because of their complexity.

Increased regulation and stiff opposition

1. Technological advancement is inviting opposition from those who fear that new innovations are a threat to ecology, privacy, simplicity and even the human race.
2. As the production process becomes more complex and products assume greater sophistication, public have to be assured of their safety, their minimal propensity to cause pollution and their least threat to happiness and well-being of human race.

Technology and society:

There is the change in the social life, which results from a change in a technological process. Thus an invention may displace 100 of workers, yet the same invention may create even more jobs. Though rising population, technology directly changes the pattern of social life. An invention may open new employment to women, youth etc. tech. tends to smoothen difference & create harmony.

Rise in the stranded of living is improved due to technological advancement through MNCs. In India, employees in foreign are paid more than local Indian companies, though they do the same job. The way of cooking, communication, use of media & work are affected by tech.

Technology revolutionized education system. It has democratized by making available the world's best libraries & instructors etc. through internet.

Technological effect on Market palace:

Consumer spending has increased because of technology, which leads to a healthier economy. When people make confident buying decisions, the economy typically does better. The innovation of online shopping has made it easier to buy goods quickly and often much cheaper, so retail stores are getting much less in-store.

Technological effect on manufacturing:

New kinds of technology increase the efficiency and thus lower the cost of production. An increase in the level or production can help boost the economy, but also creates the problem of unemployment. Manufacturers are benefitted by technology, but contribute to unemployment at the same time. They are forced with a tough decision, and both have negative and positive effects on the economy.

Economic effects of technology:

A firm's technology is the processes it uses to turn inputs into outputs of goods and services. It usually refers to development of new products. In economic sense, a firm's technology depends on many factors such as the skill of its managers, the training of its workers and the speed and efficiency of its machinery and equipments.

Business Process Outsourcing.

Business Process Outsourcing (BPO) is the delegation of the Ownership, Administration, and Operation of a process to a third party. Many people see it as an evolution from Information Technology Outsourcing (ITO). Business Process Outsourcing (BPO) is the delegation of one or more IT-intensive business processes to an external provider that in turn owns administers and manages the selected process based on defined and measurable performance criteria.

Business Process Outsourcing (BPO) is one of the fastest growing segments of the Information Technology Enabled Services (ITES) industry. Business process outsourcing may be defined as "the contracting out of a company's in-house function to a preferred vendor with a high quality level in a particular task area". By contracting out activities in which a business firm does not have expertise, it can save costs on employee benefits and free its existing staff for other duties

Introduction:

The term outsourcing was introduced in mid 1980s. However, the idea of hiring someone for specific jobs or of dividing labour has existed for hundreds of years. In business, outsourcing can be found everywhere; whether big or small, simple or complex. During the pre-1900s, the outsourcing was focused on labour intensive production tasks and business activities outside the firm's core competitiveness. In a world dominated by Internet, Intranet and the IT revolution, business and knowledge no longer have to be home grown. In this increasingly competitive world, it can be contracted, to reduce the cost and maximize the profit, without compromising on quality and time. Such a contract is known as outsourcing. It is a powerful management tool for redefining and re-energising any organisation.

It is useful, not only for maximising the present profits of the organisation, with the existing clientele, but it also relieves and enables employees to work on higher value added jobs. It offers online support services that use the Internet as a platform to build the desired recognition value in the eyes of customers, through good customer servicing. Outsourcing business process helps in taking care of daily routines, and concentrates on the new business prospects. This process reduces overheads, and increases profit and time to concentrate on new business avenues.

i. It is a subset of outsourcing that involves the contracting of a specific business task, such as human resources and customer service, to a third-party service provider. This allows companies to focus on their core business processes.

ii. For example, an insurance company might outsource their claims processing program or a bank might outsource their loan processing system.

iii. BPO is divided into two categories –

a. Back Office Outsourcing – It includes outsourcing of internal business functions such as billing or purchasing.

b. Front Office Outsourcing – It includes outsourcing of customer-related services such as marketing or technical support.

iv. Offshore Outsourcing – BPO that is contracted outside a company's own country.

v. Near shore Outsourcing – BPO that is contracted to a company's neighboring country.

vi. Onshore Outsourcing – BPO that is contracted with the company's own country.

Few of the motivation factors as to why BPO is gaining ground are:

a. Factor Cost Advantage

b. Economy of Scale

c. Business Risk Mitigation

d. Superior Competency

e. Utilization Improvement

Companies essentially have three kinds of processes:

a. Core processes (which give strategic advantage)

b. Critical, Non-core processes (which are important but are not competitive differentiators)

c. Non-core, Non-critical processes (which are needed to make the environment work)

Top 5 Benefits of Outsourcing:

(i) Focusing of Attention:

Outsourcing focuses the firm's attention and resources on select activities for better efficiency and effectiveness. It provides an opportunity to the organisation to concentrate on areas in which it has core competency and contracting out the rest to the outsourcing partners.

(ii) Quest for Excellence:

The firms excel in the activities that they can do the best (because of core competency or strength) by virtue of limited focus and by contracting out the remaining activities to expert and specialized service providers.

(iii) Cost Reduction:

It not only provides benefits of expert and specialized service of outsourcing partners, but also reduces cost. This happens due to economies of large-scale, which accrue to outsourcing partners as they deliver the same service to a number of organisations.

For example, India is a preferred destination for outsourcing due to availability of cheap manpower.

(iv) Growth through Alliance:

Alliance with outsourcing partners enables growth and expansion of business as resources saved from outsourcing can be used for expanding the production capacity and exploring new markets. It also facilitates inter-organisational knowledge sharing and collaborative learning.

(v) Fillip (Boost) to Economic Development:

Outsourcing promotes entrepreneurship, employment and exports in the countries from where outsourcing is done (known as host countries). For example, in India, in the IT sector, there has been such a tremendous growth of entrepreneurship, employment and exports that today we are the undisputed leaders as far as global outsourcing in software development and IT-enabled services are concerned.

Top 3 Features:

(i) Outsourcing Involves Contracting Out:

It involves contracting out an activity to an outside specialised agency which undertakes complete responsibility to handle it using its own manpower.

For example, many companies have started outsourcing sanitation and housekeeping functions, which were earlier performed by their in-house staff.

(ii) Generally Non-Core Business Activities are Outsourced:

Outsourcing is done of non-core activities, such as housekeeping or security in case of school.

For example, a school may tie-up with some computer training institute to impart computer education to its students.

(iii) Processes may be Outsourced to a Captive Unit or a Third Party:

A number of processes such as recruitment, selection, training etc., may also be outsourced to third party service providers.

In the outsourcing terminology, there are three types of third party service providers:

(a) Captive BPO Unit – It provides services of a given kind to only one firm, e.g., General Electric (GE) is the largest captive BPO unit in India for providing certain kinds of services to the parent company in the US.

(b) Horizontals – Persons/firms which provide their services to a wide base of clients, cutting across industries.

(c) Verticals – They may specialise in one or two industries and scale up to doing a number of processes from non-core to core.

Key Factors in Successfully Outsourcing a Business Process:

1. Thoroughly analyze your process so you know your costs, and can determine the cost savings of outsourcing over a specific time period.

2. Define roles and responsibilities in the outsourcing partnership, so there are no surprises, and so that the expectations of both parties are clear.

3. Have measurable performance objectives – the speed of transactions, the time period to close the books, etc. and establish performance incentives, both rewards and penalties, for meeting those objectives.

4. Develop a detailed transition plan to ensure a smooth hand off. Outsourcing is a major undertaking that benefits from careful advanced planning.

5. Establish a clear dispute-resolution process to handle issues as they arise. This makes for smoother operations and doesn't make every issue a contractual or legal problem.

6. Monitor results for continuous improvement. Arrange long term contracts on a yearly renewal basis, so there is an annual review of an outsourcer's performance.

Advantages:

. Cost Saving:

Cost is the most important factor in the outsourcing decision. The outsourcer should compare the cost of outsourcing a function vis-a-vis performing it by itself. The cost as a result of outsourcing should be reasonable one. Cost saving helps business enterprises to gain competitiveness.

ii. Concentration on Core Competency:

There is a change in the business strategy of performing all business activities in house. The present day competitive and high technology environment requires the customer orientation. This requires consistent efforts to improve the productivity of assets of the organization. Outsourcing helps the management to concentrate on core issues and leave non-core activities to outsiders.

iii. Speed to Market:

Outsourcing alone generates savings by increasing cash-flow, accelerating growth in market share and concentration of resources of the company towards product/service design and customer service.

iv. Cost Deferral or Other Financial Engineering:

Outsourcing can include some financial engineering, which shifts costs from one accounting period to another. Many outsourcing deals are driven by a desire to avoid having to purchase an upgrade in computers, networks or other capital equipment at the expiration of either useful life or the contractual right to use old infrastructures.

v. Diversion of Problem Area:

The organization may go for outsourcing simply for the reason that it is prepared to pay a bit more to divert itself from problem area and hand over the problem to somebody else.

vi. Human Resource Management:

Traditional activities relating to human resource management such as recruitment, training, supervision, development and annual appraisal etc. can be minimized through outsourcing. Outsourcing of desired personnel for desired activities for the required duration will improve the corporate profitability and efficiency.

vii. Technological Change:

Outsourcing helps improving the existing technology to achieve the objectives for better quality products at minimum cost. Access to latest technological or process sophistication becomes easy and assured in outsourcing. Outsourcing provides a firm to avail the opportunity of using world class external sources.

viii. Flexibility:

Outsourcing will bring in flexibility in scope of services, volumes of outputs pricing, geographical extension etc. and the company make least capital investment.

ix. Higher Stock Market Price:

Since stock market analysts measure the revenue per employee, the reduced head count due to outsourcing result in increased per employee revenue and it will lead to increase in stock price.

x. Shared Risk:

With the changing environment the risk in investment is high. Outsourcing is more dynamic to accept change to produce maximum returns on investment. In other words, there are no compulsion in investment in the own back dated production to receive under rated return for the investors.

Drawbacks:

(a) Reduction in Control – The organization may lose some control and becomes dependent on the suppliers.

(b) Staff Issues – Outsourcing may lead to low employee morale and reduce performance of other staff.

(c) Exploitation – All the labor is cheap in the developing countries. Many organizations shift their manufacturing units to such countries from the advanced countries.

(d) Information Security – Outsourcing may lose the information security which may lead the competitors to a front-foot.

Knowledge process outsourcing (KPO):

Knowledge process outsourcing (KPO) describes the outsourcing of core information-related business activities which are competitively important or form an integral part of a company's value chain. KPO requires advanced analytical and technical skills as well as a high degree of specialist expertise. Reasons behind KPO include an increase in specialized knowledge and expertise, additional value creation, the potential for cost reductions, and a shortage of skilled labor. Regions which are particularly prominent in Knowledge Process Outsourcing include India and Eastern Europe. KPO is a continuation of Business process outsourcing, yet with rather more of business complexity. To be successful in Knowledge process outsourcing, a lot of guide is required from inter organizational system.

Types of KPO

KPO (Knowledge Process Outsourcing) services include all kinds of research and information gathering, e.g.

- intellectual property research for patent applications;
- equity research,
- business and market research,
- legal and medical services;
- training,
- consultancy,
- research and development in fields such as pharmaceuticals and

biotechnology; and animation and design, etc.

Importance of KPO

The developing rivalry has brought about shorter time to market cycles, and clients are getting to be more requesting regarding quality. This has constrained the firms to give operational proficiency and increase the value of their products and services. The customer can launch an item quicker and get to the market immediately. A company can lessen the complexities included in overseeing and constantly constructing information in an extensive pool of Human Resources.

Risks and Benefits of KPO:

- Cost reduction
- Shortage of Skilled employees
- Provides many graduates at very low cost
- High end services are provided at a very cost to decrease unemployment and benefit their economy
- Provide flexibility in terms of HRM & time management

Risk

- Security- Classified information about the company can be lost
- Key talent retention
- The character of the employee and the quality of the work cannot be assured
- KPO is time consuming and cannot provide a quick fix to the company seeking immediate results.
- Lack of communication between partners due to legal, language and cultural barriers can lead to complications

Differentiating KPO from BPO:

- A KPO firm requires considerably more skilled personnel. Experts working in KPO keep on learning and accomplished professionals can power their aptitude to produce more incomes for the KPO firm.
- The main difference between a KPO firm and a BPO firm is that in a KPO firm, the customer is included amid the whole execution process. KPO firms additionally provide their customers with high end services.

- The pay of KPO representative is much higher than offered to the BPO worker as the individuals working for KPO are exceptionally qualified.

Legal Process Outsourcing (LPO):

Legal outsourcing, also known as **legal process outsourcing** (LPO) refers to the practice of a law firm or corporation obtaining legal support services from an outside law firm or legal support services company (LPO provider). When the LPO provider is based in another country, the practice is called off shoring and involves the practice of outsourcing any activity except those where personal presence or contact is required, e.g. appearances in court and face-to-face negotiations. When the LPO provider is based in the same country, the practice of outsourcing includes agency work and other services requiring a physical presence, such as court appearances. This process is one of the incidents of the larger movement towards outsourcing. The most commonly offered services have been agency work, document review, legal research and writing, drafting of pleadings and briefs, and patent services.

This phenomenon has been a part of the legal experience since the 1950s, where it was restricted only to patents. Later, firms began to contract certain services to back door firms. The process of subcontracting part of the legal process to different countries is at a nascent stage, with relatively consistent market growth. Legal process outsourcing has predominantly been to countries that had previously taken advantage of the business process outsourcing wave. LPO providers have established themselves in Canada, India, the Philippines, the United States, Israel, and Latin America.

Legal Process Outsourcing (LPO) is a lesser known concept among the non-legal community. As soon as a person hears the term LPO, their mind immediately draws parallel to the better-known concept of BPO. Images of call centres filled with youngsters jabbering away on the phone in American accent flash across. LPO and BPO are conceptually similar. But in the matter of execution and qualification, LPO is a different world altogether.

The concept of legal process outsourcing is based on the division of labour principle, prevalent in law firms, where various time consuming and onerous processes like due diligence are delegated to paralegals, document reviewers or interns. This allows the firm to address the various legal issues that arise on a daily basis while being able to streamline productivity. The process involves a contract, with due consideration, between both firms. The following are the various methods by which the process could be initiated:

- Direct Contract – This is the most straight forward means of establishing contact. The firm needing legal services directly approaches the legal process outsourcing vendor.
- Managed Outsourcing – This is a case where the firm establishes contact with a legal process outsourcing vendor and retains a traditional law firm to coordinate the vendor's activities and to ensure quality control.
- Required Outsourcing – This form of outsourcing occurs when the firm mandates a certain level of outsourcing in the legal process, either to reduce costs or to fulfill statutory requirements.
- Multi-sourcing – This involves segregating the work assigned to LPO providers in order to reduce risk and take advantage of each provider's strengths. This approach is helpful in cases where expertise is required on matters of jurisdiction and merits. Having more than one provider "on deck" also allows a service recipient to obtain more favorable pricing. On the other hand, multi-sourcing can be more complicated than other approaches. Successfully managing multiple, competing providers requires strong and effective governance procedures.

Concept of Legal Process Outsourcing:

Lawyers in UK, US, Singapore, Dubai etc charge a lot of money on hourly basis. In order to reduce the expenses, many corporates send their legal work over to India where it can be done in the fraction of the cost. There are companies in India who receive this work and allot it to law graduates employed by it. These law graduates accomplish the required work and send the finished documentation to the client abroad. All the work and exchange of information in the LPOs takes place online. The LPOs get paid by the foreign client for the work accomplished.

Qualification and skills required:

LPOs require law graduates with a specific skill set.

1. Law degree from a recognized university
2. Good command over English – spoken and written
3. Attention to detail

Kind of work accomplished in LPOs:

Legal process outsourcing units do not work on Indian laws or for Indian clients as a rule. Bar Council of India prohibits them from doing so. The lawyers in the LPOs work on matters relating to foreign laws. The work involves drafting of certain documents on the basis of templates, reviewing documents, running company searches, legal research, Compliance to various laws, proofreading documents etc. The work is done online with the help of specialized software's.

Advantages/ Benefits:

Corporate Culture - The LPOs follow the corporate format which ensures uniformity in the work space. Promotions, increments, hierarchy, proper office spaces, safer environment for women and other associated benefits. This is comparatively a lot better than working as a junior lawyer in smaller law offices wherein there is lack of corporate culture/professionalism and 12-14 hours of work hours every day! There have been instances wherein seniors have harassed the female associates in these law offices but the females have had no one to complain to because the harasser is the boss. They have no option but to quit the job. Proper hierarchy and professional culture in LPOs makes it safer for female lawyers.

Fixed working hours – The work hours are generally fixed for 8 - 10 hours every day. The standard is 9 am to 6 pm, but it might slightly differ if the LPO caters to UK or US clients.

Monetary benefits – The salary levels vary from one LPO to another. The bigger LPOs pay around Rs. 30,000-45,000 for freshers. Whereas the smaller LPOs offer anything between Rs. 20,000 to 25,000. Some of the companies offer performance bonus and other perks too. The salaries are revised every year depending on the evaluation cycles.

Due to the fact that there is predictability of income with this career choice (unlike practicing in Indian law courts independently where there is no fixed income), employees find it easier to obtain bank loans for various purposes.

Learning opportunities – Many LPOs hire foreign trainers in order to train their employees. Some of the LPOs work for biggest of the law firms/companies from US and UK. This gives their employees exposure to work culture of these countries LPOs also give access to best of software available for the industry.

Option to work from home – Some of the LPOs offer more flexible work culture where the employees can work from home if need arises. This ensures work-life balance for the lawyers.

Criticisms/Drawback of LPOs:

There are some issues which plague the Legal Process Outsourcing industry in India:

1. Lawyers don't like the tag of 'LPO' as it sounds similar to BPO.

2. It is not exactly the topmost career choice as lawyers don't get to work on Indian laws. Working on foreign laws continuously makes them lose touch with the domestic laws,

3. The work in this industry can be tedious at times. Some of the people term it as 'grunt work'.

4. Foreign clients have reservations regarding confidentiality of documents being shared with the LPOs based in India. There is always scope of misuse of information. For example, if an LPO is processing documents pertaining to merger of two companies which is still not publicly announced, an LPO employee may misuse his knowledge and get involved in insider trading.

LPOs industry is still at nascent stage in India. In spite of all odds, there is a lot of scope of expansion and growth. There would be a lot of job opportunities in this field in the coming years.

VIRTUAL EMPLOYEE

Virtual Employee is a remote staffing company based in Rockland, Maine, with a satellite office in Noida, India. Founded in 2007, Virtual Employee's team of nearly 700 employees provides non-voice BPO/back-office, web design and development, and mobile app development services.

LEGAL IT GROUP

Legal IT Group is a legal consultancy founded in 2014. Based in Kiev, Ukraine, the team of 10 provides legal outsourcing services for its clients.

CEREBRA LPO

Cerebra LPO is a legal process outsourcing firm based in Bangalore, India with additional offices in Mumbai and Dubai. Founded in 1992, Cerebra LPO provides non-voice BPO/back office services and voice/call center services to primarily attorneys and law firms around the world.

QUISLEX

Quislex is a legal services provider based in New York but with secondary offices in Chicago, San Francisco, London, and Hyderabad, India. Founded in 2004, Quislex now features a team of more than 1,000 employees. They provide non-voice BPO/back office services to a variety of clients.

BUSINESS ENVIRONMENT

ALCOR

Alcor is an IT outsourcing company based in Kiev, Ukraine and founded in 2007. Their team of 33 employees specializes in creating company-specific R&D centers in Ukraine that provide their clients with finance and accounting outsourcing, HR services, and IT staff augmentation. They work primarily with clients in the telecommunications industry.

EXACTUS

Based in Mumbai, India, Exactus is a legal process outsourcing services firm founded in 1995. The team of 34 specializes in non-voice BPO/back office services, voice service, and translation. They serve clients in the legal industry.

Recruitment process outsourcing (RPO):

Recruitment process outsourcing (RPO) is a form of business process outsourcing (BPO) where an employer outsources or transfers all or part of its recruitment activities to an external service provider. The Recruitment Process Outsourcing Association defines RPO as follows: "when a provider acts as a company's internal recruitment function for a portion or all of its jobs. RPO providers manage the entire recruiting/hiring process from job profiling through the on boarding of the new hire, including staff, technology, method and reporting. A properly managed RPO will improve a company's time to hire, increase the quality of the candidate pool, provide verifiable metrics, reduce cost and improve governmental compliance".

The RPO Alliance, a group of the Human Resources Outsourcing Association (HROA), approved this definition in February 2009: "Recruitment Process Outsourcing (RPO) is a form of business process outsourcing (BPO) where an employer transfers all or part of its recruitment processes to an external service provider. An RPO provider can provide its own or may assume the company's staff, technology, methodologies and reporting. In all cases, RPO differs greatly from providers such as staffing companies and contingent/retained search providers in that it assumes ownership of the design and management of the recruitment process and the responsibility of results". Occasional recruitment support, for example temporary, contingency and executive search services, is more analogous to out-tasking, co-sourcing or just sourcing. In this model, the service provider is just a source for certain types of recruitment activity. The distinction between RPO and other types of staffing is that in RPO, the service provider assumes control of the process.

Why opt for our RPO Services:

- Cost reduction
- Time-saving
- Network utilization
- Specific skill-based recruitment
- Domestic and offshore recruitment
- Interim recruitment

10 Benefits of RPO

1. Stronger Quality of hires

This is the main purpose and advantage of an RPO provider. They invest their time, energy and resources into sourcing, screening and presenting the cream of the crop in terms of available talent to the client. The aggregated talent stream offers a cultivated pool from which to search. Referral activation is often a unique feature of RPO.

2. Cost Reduction

Obviously one of the prime advantages of RPO is its cost effectiveness. The bottom line is that RPO saves companies money in the long run. RPO providers can scale up and scale down their recruitment activity to match the fluctuating hiring needs of the client. In business, to use the old adage, time is money. Every day that a position remains unfilled costs a company. Filling vacancies fast is better for productivity and reduces the amount of HR resources spent on sourcing candidates. RPO providers are ultimately measured on time to hire, cost of hire and quality of hire.

3. Scalable Model

As companies experience peaks and troughs to staffing an RPO model is calibrated to flex accordingly. If a company is expanding or opening a new department it will need more staff, while if it is downsizing or it has to implement a hiring freeze, it will not. RPO providers have structures in place to adapt to any situation. They can scale their recruitment team up and down as needed. At the end of the day the client pays for what they get; successfully filled vacancies, nothing more, nothing less. RPO providers are flexible and can accommodate every situation. Prices are based on closed positions.

4. Reduced Time to Hire

Internal RPO resource models scale to overcome the challenge of tight time to hire deadlines. Most RPO providers will have established time to hire models.

5. Talent Pooling

The RPO provider will present the client with the best people for the job. All strong candidates are pooled and actively engaged with, creating a community for future hiring.

6. Recruitment Process and Assessment Design

RPO providers may re-engineer a company's entire recruiting process so that it is consistent across all departments. This makes it easier for management to follow progress and understand how the procedure is developing at any given time.

7. Analytics and Reporting

RPO providers track and trace every stage of the recruitment process allowing for real-time reporting and detailed insights for prompt decision making. This also makes it a lot easier for future audits of recruitment activity.

8. Enhanced Stakeholder Engagement

RPO enhances hiring manager and senior leadership engagement through fulfilling pre-agreed SLAs. The quality of hires and the efficiency of the recruitment procedure lead to high levels of HR satisfaction which can only be good for productivity. Essentially RPO allows the client get on with the business of being a business.

9. Excellent compliance regulations

RPO firms are experts on labour laws and standards. Detailed records are kept, mapping every stage of the recruitment process. They are guaranteed to implement fully complaint, auditable processes and methods.

10. Reduces the Need for Direct Advertising

Advertising is expensive. When a company engages with an RPO provider they drastically cut back on those costs. The need to advertise in all the regular, costly outlets is eliminated. The RPO firm assumes responsibility for finding the candidates. They go to them, instead of having them come to you. They have all the necessary resources for tracking the strongest available people.

Cons to RPO:

- It may feel as though employers have less control over the recruiting process, which can make some organizations or individuals uncomfortable.
- The organization won't know if a qualified candidate was overlooked.
- It may be difficult for an RPO provider to understand role requirements and the organization's culture, which are both critical in finding a good fit.

Risks:

RPO can only succeed together with a well-defined corporate staffing strategy. A company must manage its RPO activities, providing initial direction and continued monitoring to assure good results. An RPO solution may not work if the company's existing recruitment processes are performing poorly, or if the service provider lacks the necessary recruitment processes or procedures to work with the client. In these situations, it is better for the company to undergo a recruitment optimization program. Cost and quality can be issues, the cost of engaging an RPO provider may be more than with internal recruiting staff, as the outside provider is likely to have higher business overhead. Poorly implemented RPO could reduce the effectiveness of recruitment, if the provider does not understand the business situation. Service providers may fail to provide the quality or volume of staff required, especially in industry sectors where there are staff shortages. RPO providers do not necessarily act as custodians of their clients' employer brand in the way that a strongly aligned retained search firm or internal recruiting resource would.

Many RPO organisations perform their staffing functions and service offsite or offshore, disconnecting the provider from the client company's growth and recruiting strategy, and some of the momentum and energy associated with the rapid up scaling of a workforce through recruitment may dissipate. Additionally, placing all recruitment in the hands of a single outside provider may discourage the competition that would arise if multiple recruitment providers were used.

Special Economic Zones:

The Special Economic Zone (SEZ) policy in India first came into inception on April 1, 2000. The prime objective was to enhance foreign investment and provide an internationally competitive and hassle free environment for exports. The idea was to promote exports from the country and realizing the need that level playing field must be made available to the domestic enterprises and manufacturers to be competitive globally. Legislation has been passed permitting SEZs to offer tax breaks to foreign investors. Over half a decade has passed since its inception, but the SEZ Bill has certain drawbacks due to the omission of key provisions that would have relaxed rigid labour rules. This has lessened India's chance of emulating the success of the Chinese SEZ model, through foreign direct investment (FDI) in export-oriented manufacturing.

The policy relating to SEZs, so far contained in the foreign trade policy, was originally implemented through piecemeal and ad hoc amendments to different laws, besides executive orders. In order to avoid these pitfalls and to give a long-term and stable policy framework with minimum regulation, the SEZ Act, '05, was enacted. The Act provides the umbrella legal framework, covering all important legal and regulatory aspects of SEZ development as well as for units operating in SEZs. Since the rules will take care of many issues, the Special Economic Zone Act is likely to take some more time and the government is unlikely to notify them before September 1. The commerce and industry ministry is examining the domestic industry's comments on draft SEZ rules. A meeting of development commissioners of all SEZs will be convened soon to discuss the changes that need to be incorporated before they are notified to be placed before the parliament for final approval.

The objective of the SEZ Act was to create a hassle-free regime and the rules would be formulated keeping this in mind. The ministry is also holding talks with state governments as they have to play an important role in the development of SEZs.

What is a Special Economic Zone (SEZ)?

Special Economic Zone (SEZ) is a specifically delineated duty-free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs. In order words, SEZ is a geographical region that has economic laws different from a country's typical economic laws. Usually the goal is to increase foreign investments. SEZs have been established in several countries, including China, India, Jordan, Poland, Kazakhstan, Philippines and Russia. North Korea has also attempted this to a degree.

Where are SEZs located in India?

At present there are eight functional SEZs located at Santa Cruz (Maharashtra), Cochin (Kerala), Kandla and Surat (Gujarat), Chennai (Tamil Nadu), Visakhapatnam (Andhra Pradesh), Falta (West Bengal) and Noida (Uttar Pradesh) in India. Further an SEZ in Indore (Madhya Pradesh) is now ready for operation. In addition 18 approvals have been given for setting up of SEZs at Positra (Gujarat), Navi Mumbai and Kopata (Maharashtra), Nanguneri (Tamil Nadu), Kulpi and Salt Lake (West Bengal), Paradeep and Gopalpur (Orissa), Bhadohi, Kanpur, Moradabad and Greater Noida (UP), Vishakhapatnam and Kakinada (Andhra Pradesh), Vallarpadam/Puthuvypeen (Kerala), Hassan (Karnataka), Jaipur and Jodhpur (Rajasthan) on the basis of proposals received from the state governments.

Who can set up SEZs? Can foreign companies set up SEZs?

Any private/public/joint sector or state government or its agencies can set up an SEZ.

Yes, a foreign agency can set up SEZs in India.

What is the role of state governments in establishing SEZs?

State governments will have a very important role to play in the establishment of SEZs. Representative of the state government, who is a member of the inter-ministerial committee on private SEZ, is consulted while considering the proposal. Before recommending any proposals to the ministry of commerce and industry (department of commerce), states must satisfy themselves that they are in a position to supply basic inputs like water, electricity, etc.

Are SEZ's controlled by the government?

In all SEZs the statutory functions are controlled by the government. Government also controls the operation and maintenance function in the seven central government controlled SEZs. The rest of the operations and maintenance are privatized.

Are SEZs exempt from labour laws?

Normal labour laws are applicable to SEZs, which are enforced by the respective state governments. The state governments have been requested to simplify the procedures/returns and for introduction of a single window clearance mechanism by delegating appropriate powers to development commissioners of SEZs.

Who monitors the functioning of the units in SEZ?

The performance of the SEZ units is monitored by a unit approval committee consisting of development commissioner, custom and representative of state government on an annual basis.

What are the special features for business units that come to the zone?

Business units that set up establishments in an SEZ would be entitled for a package of incentives and a simplified operating environment. Besides, no license is required for imports, including second hand machineries.

How do SEZs help a country's economy?

SEZs play a key role in rapid economic development of a country. In the early 1990s, it helped China and there were hopes (perhaps never very high ones, admittedly) that the establishment in India of similar export-processing zones could offer similar benefits -- provided, however, that the zones offered attractive enough concessions. Traditionally the biggest deterrents to foreign investment in India have been high tariffs and taxes, red tape and strict labour laws. To date, these restrictions have ensured that India has been unable to compete with China's massively successful light-industrial export machine. India's goods exports in 2004 were an estimated $68 bn compared with $594 bn for China, and the stock of inward FDI, at $42 bn, was less than a tenth of China's $544 bn.

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