



MBA - I YEAR

DKR14 : BUSINESS ENVIRONMENT

SYLLABUS

Unit I

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Indian Economy – Economic Systems – National income, expenditure – Investment – Economic planning – Priorities of IX plan – Income distribution and poverty – Capital formation and domestic savings – Public and Private Sectors – Privatisation move – Fiscal Policy.

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International Business – Overview – Types of international Business – External Environment – Economy and Political Environment Human and Cultural Environment – Influence on Trade and investment pattern – Working financial environment – Cross national Co-operation and agreements – Tariff and non – tariff barriers GATT, WTO – Regional Block.

References :

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UNIT I
CHAPTER 1
BUSINESS ENVIRONMENT

Businesses do not operate in a vacuum; they operate in an environment, including what makes it up. Understanding the environment within which the business has to operate is very important for running a business unit successfully at any place. Because, the environmental factors influence almost every aspect of business, be it its nature, its location, the prices of products, the distribution system, or the personnel policies. Hence it is important to learn about the various components of the business environment, which consists of the economic aspect, the socio-cultural aspects, the political framework, the legal aspects and the technological aspects etc.

Business Environment is the sum total of all external and internal factors that influence a business. These factors such as external factors and internal factors can influence each other and work together to affect a business. For example, a health and safety regulation is an external factor that influences the internal environment of business operations. Additionally, some external factors are beyond the control. These factors are often called **external constraints**. It is also defined as the total surroundings, which have a direct or indirect bearing on the functioning of business. It may also be defined as the set of external factors, such as economic factors, social factors, political and legal factors, demographic factors, technical factors etc., which are uncontrollable in nature and affects the business decisions of a firm.

Features of business environment

On the basis of the above discussion the features of business environment can be summarised as follows.

- a. Business environment is the sum total of all factors external to the business firm and that greatly influences their functioning.
- b. It covers factors and forces like customers, competitors, suppliers, government, and the social, cultural, political, technological and legal conditions.
- c. The business environment is dynamic in nature that means, it keeps on changing.



- d. The changes in business environment are unpredictable. It is very difficult to predict the exact nature of future happenings and the changes in economic and social environment and the like.
- e. Business Environment differs from place to place, region to region and country to country. Political conditions in India differ from those in Pakistan. Taste and values cherished by people in India and China vary considerably.

IMPORTANCE OF BUSINESS ENVIRONMENT

There is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively. As stated above, the business environment is multifaceted, complex, and dynamic in nature and has a far-reaching impact on the survival and growth of the business. To be more specific, proper understanding of the social, political, legal and economic environment helps the business in the following ways:

- a. **Determining Opportunities and Threats:** The interaction between the business and its environment would help identify opportunities for and threats to the business. It enables the business enterprises for meeting the challenges successfully.
- b. **Giving Direction for Growth:** The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.
- c. **Continuous Learning:** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.
- d. **Image Building:** Environmental understanding helps the business organisations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power.
- e. **Meeting Competition:** It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly.



- f. **Identifying Firm's Strength and Weakness:** Business environment helps to identify the individual firms strength and weaknesses in view of the technological and global developments.

Types of business environment: Confining business environment to uncontrollable external factors, it may be classified as Economic environment; and Non-economic environment.

- a. **Economic Environment** includes economic conditions, economic policies and economic system of the country.
- b. **Non-economic environment** comprises social, political, legal, technological, demographic and natural environment.

All these have a bearing on the strategies adopted by the firms and any change in these areas is likely to have a far-reaching impact on their operations.

Economic environment: The survival and success of each and every business enterprise depend fully on its economic environment. The main factors that affect the economic environment are:

- a. **Economic Conditions:** The economic conditions of a nation refer to a set of economic factors that have great influence on business organisations and their operations. These include gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market etc. All these help in improving the pace of economic growth.
- b. **Economic Policies:** All business activities and operations are directly influenced by the economic policies framed by the government from time to time. The government keeps on changing these policies from time to time in view of the developments taking place in the economic scenario, political expediency and the changing requirement. Every business firm has to function strictly within the policy framework and respond to the changes therein. Some of the important economic policies are:
 - i. **Industrial policy:** The Industrial policy of the government covers all those principles, policies, rules, regulations and procedures, which direct and control



the industrial enterprises of the country and shape the pattern of industrial development.

- ii. **Fiscal policy:** It includes government policy in respect of public expenditure, taxation and public debt.
 - iii. **Monetary policy:** It includes all those activities and interventions that aim at smooth supply of credit to the business and a boost to trade and industry.
 - iv. **Foreign investment policy:** This policy aims at regulating the inflow of foreign investment in various sectors for speeding up industrial development and take advantage of the modern technology.
 - v. **Export–Import policy (Exim policy):** It aims at increasing exports and bridge the gap between export and import. Through this policy, the government announces various duties/levies. The focus now-a-days lies on removing barriers and controls and lowering the custom duties.
- c. **Economic System:** The world economy is primarily governed by three types of economic systems, viz.,
- i. Capitalist economy
 - ii. Socialist economy and
 - iii. Mixed economy. India has adopted the mixed economy system which implies co-existence of public sector and private sector.

Non-economic environment: The various elements of non-economic environment are as follow:

- a. **Social Environment:** The social environment of business includes social factors like customs, traditions, values, beliefs, poverty, literacy, life expectancy rate etc. The social structure and the values that a society cherishes have a considerable influence on the functioning of business firms. For example, during festive seasons there is an increase in the demand for new clothes, sweets, fruits, flower, etc.

Due to increase in literacy rate the consumers are becoming more conscious of the quality of the products. Due to change in family composition, more nuclear families with single child concepts have come up. This increases the demand for the different types of household goods. It may be noted that the consumption patterns, the dressing and living styles of people belonging to different social structures and culture vary significantly.



- b. **Political Environment:** This includes the political system, the government policies and attitude towards the business community and the unionism. All these aspects have a bearing on the strategies adopted by the business firms. The stability of the government also influences business and related activities to a great extent. It sends a signal of strength, confidence to various interest groups and investors. Further, ideology of the political party also influences the business organisation and its operations. Eg.Coca-Cola, a cold drink widely used even now, had to wind up operations in India in late seventies. Again the trade union activities also influence the operation of business enterprises. Most of the labour unions in India are affiliated to various political parties. Strikes, lockouts and labour disputes etc. also adversely affect the business operations. However, with the competitive business environment, trade unions are now showing great maturity and started contributing positively to the success of the business organisation and its operations through workers participation in management.
- c. **Legal Environment:** This refers to set of laws, regulations, which influence the business organisations and their operations. Every business organisation has to obey, and work within the framework of the law. The important legislations that concern the business enterprises include:
- i. Companies Act, 1956
 - ii. Foreign Exchange Management Act, 1999
 - iii. The Factories Act, 1948
 - iv. Industrial Disputes Act, 1972
 - v. Payment of Gratuity Act, 1972
 - vi. Industries (Development and Regulation) Act, 1951
 - vii. Prevention of Food Adulteration Act, 1954
 - viii. Essential Commodities Act, 2002
 - ix. The Standards of Weights and Measures Act, 1956
 - x. Monopolies and Restrictive Trade Practices Act, 1969
 - xi. Trade Marks Act, 1999
 - xii. Bureau of Indian Standards Act, 1986
 - xiii. Consumer Protection Act, 1986
 - xiv. Environment Protection Act
 - xv. Competition Act, 2002



Besides, the above legislations, the following are also form part of the legal environment of business.

- i. **Provisions of the Constitution:** The provisions of the Articles of the Indian Constitution, particularly directive principles, rights and duties of citizens, legislative powers of the central and state government also influence the operation of business enterprises.
- ii. **Judicial Decisions:** The judiciary has to ensure that the legislature and the government function in the interest of the public and act within the boundaries of the constitution. The various judgments given by the court in different matters relating to trade and industry also influence the business activities.
- d. **Technological Environment:** Technological environment include the methods, techniques and approaches adopted for production of goods and services and its distribution. The varying technological environments of different countries affect the designing of products. For example, in USA and many other countries electrical appliances are designed for 110 volts. But when these are made for India, they have to be of 220 volts. In the modern competitive age, the pace of technological changes is very fast. Hence, in order to survive and grow in the market, a business has to adopt the technological changes from time to time. It may be noted that scientific research for improvement and innovation in products and services is a regular activity in most of the big industrial organisations. No firm in this competitive sphere can afford to persist with the outdated technologies.
- e. **Demographic Environment:** This refers to the size, density, distribution and growth rate of population. All these factors have a direct bearing on the demand for various goods and services. For example a country where population rate is high and children constitute a large section of population, then there is more demand for baby products. Similarly the demand of the people of cities and towns are different than the people of rural areas. The high rise of population indicates the easy availability of labour. These encourage the business enterprises to use labour intensive techniques of production.

The availability of skill labour in certain areas motivates the firms to set up their units in such area. For example, the business units from America, Canada, Australia, Germany, UK, are coming to India due to easy availability of skilled manpower.



Thus, a firm that keeps a watch on the changes on the demographic front and reads them accurately will find opportunities knocking at its doorsteps.

- f. **Natural Environment:** The natural environment includes geographical and ecological factors that influence the business operations. These factors include the availability of natural resources, weather and climatic condition, location aspect, topographical factors, etc. Business is greatly influenced by the nature of natural environment. For example, sugar factories are set up only at those places where sugarcane can be grown. It is always considered better to establish manufacturing unit near the sources of input. Further, government's policies to maintain ecological balance, conservation of natural resources etc. put additional responsibility on the business sector.

Recent developments in Indian economy

The economic environment of business in India has been changing at a fast rate mainly due to the changes in the economic policies of the government. At the time of independence, the Indian economy was basically agrarian with a weak industrial base. To speed up the industrial growth and solve various economic problems, the government took several steps like state ownership on certain categories of industries, economic planning, reduced role of private sector, etc.

The Government adopted several control measures on the functioning of private sector enterprises. All these efforts resulted a mixed response. There was growth in net national product, per capita income and development of capital goods sector and infrastructure. But rate of industrial growth was slow, inflation increased and government faced a serious foreign exchange crisis during eighties. As a result, the government of India introduced a radical change in economic policies in 1991. This policy abolished industrial licensing in most of the cases, allowed private participation in most industries; disinvestment was carried out in many public sector industrial enterprises and opened up the economy considerably. Foreign Investment Promotion Board was set up to channelize foreign capital investment in India. The major policy changes brought in by the then government are as follows



a. **Liberalisation:** Liberalisation refers to the process of eliminating unnecessary controls and restrictions on the smooth functioning of business enterprises. It includes:

- i. Abolishing industrial licensing requirement in most of the industries.
- ii. Freedom in deciding the scale of business activities.
- iii. Freedom in fixing prices of goods and services
- iv. Simplifying the procedure for imports and exports
- v. Reduction in tax rates
- vi. Simplified policies to attract foreign capital and technology to India.

Through this liberalisation process, Indian Economy has opened up and started interacting with the world in a big way. This has resulted in easy entry of foreign business organisations in India. This has further resulted in stiff competition and efficiency. Ultimately, liberalisation has helped us in achieving a high growth rate, easy availability of goods at competitive rates, a healthy and flourishing stock market, high foreign exchange reserve, low inflation rate, strong rupee, good industrial relations, etc.

b. **Privatisation:** Privatisation refers to reducing the role of public sector by involving the private sectors in most activities. Due to the policy reforms announced in 1991, the expansion of public sector has literally come to a halt and the private sector registered fast growth in the post liberalised period. The issues of privatisation include:

- i. Reduction in the number of industries reserved for the public sector from 17 to 8 (reduced further to 3 later on) and the introduction of selective competition in the reserved area.
- ii. Disinvestment of shares of selected public sector industrial enterprises in order to raise resources and to encourage wider participation of general public and workers in the ownership in business
- iii. Improvement in performance through an MOU system by which managements are to be granted greater autonomy but held accountable for specified results.

In India, as a result of these steps, the post liberalisation phase has witnessed a massive expansion of the private sector business in India. It can be understood from the fact that the total capital employed in top 500 private sector companies rose from



Rs. 1,39,806 crores in 1992-93 to Rs. 2, 34, 751 crores in 1994-95 (an expansion of 68% in just two years).

- c. **Globalisation:** Globalisation means ‘integrating’ the economy of a country with the world economy. This implies free flow of goods and services, capital, technology and labour across national boundaries. To achieve these objectives of globalisation, the government has adopted various measures such as reduction in custom duties, removal of quantitative restrictions or quotas on exports and imports, facilitating foreign investment and encouragement of foreign technology. These measures are expected to achieve a higher rate of growth, enlargement of employment potential, and reduction of regional disparities.

QUESTIONS FOR DISCUSSION

1. Explain the features of Business Environment.
2. What are the importance of Business Environment?
3. What are the different components and types of Business Environment?
4. What are the recent developments in Indian Economy?



UNIT II
CHAPTER 2
CULTURE AND VALUES IN BUSINESS

Business Culture: Culture illustrates the accepted norms and values and traditional behaviour of a group. Deal and Kennedy defines culture as “*the way a we do things around here*”. However, culture also evolves over time. The culture of each country has its own beliefs, values and activities. In other words culture can be defined as an evolving set of collective beliefs, values and attitudes.

Culture is a key component in business and has an impact on the strategic direction of business. Culture influences management, decisions and all business functions from accounting to production. Culture is predominantly about national culture but this is only one aspect, business culture is in its own unique dimension includes getting off on the right foot, meetings, negotiation, formalities, social media use, internships and work placements and other elements which are highlighted on this website. It is related to behaviour, ethics, etiquette and more. A business culture will encompass as organisation’s values, visions, working style, beliefs and habits.

Importance of Culture in Business

- a. The culture decides the way employees interact at their workplace. A healthy culture encourages the employees to stay motivated and loyal towards the management.



- b. The culture of the workplace also goes a long way in promoting healthy competition at the workplace. Employees try their level best to perform better than their fellow workers and earn recognition and appreciation of the superiors. It is the culture of the workplace which actually motivates the employees to perform.
- c. The culture of an organization represents certain predefined policies which guide the employees and give them a sense of direction at the workplace. Every individual is clear about his roles and responsibilities in the organization and know how to accomplish the tasks ahead of the deadlines.
- d. No two organizations can have the same work culture. It is the culture of an organization which makes it distinct from others. The work culture goes a long way in creating the brand image of the organization. The work culture gives an identity to the organization. In other words, an organization is known by its culture.
- e. The organization culture brings all the employees on a common platform. The employees must be treated equally and no one should feel neglected or left out at the workplace. It is essential for the employees to adjust well in the organization culture for them to deliver their level best.
- f. The work culture unites the employees who are otherwise from different back grounds, families and have varied attitudes and mentalities. It gives the employees a sense of unity at the workplace. Certain organizations follow a culture where all the employees irrespective of their designations have to step into the office on time. Such a culture encourages the employees to be punctual which eventually benefits them in the long run. It is the culture of the organization which makes the individuals a successful professional.
- g. Every employee is clear with his roles and responsibilities and strives hard to accomplish the tasks within the desired time frame as per the set guidelines. Implementation of policies is never a problem in organizations where people follow a set culture. The new employees also try their level best to understand the work culture and make the organization a better place to work.
- h. The work culture promotes healthy relationship amongst the employees. No one treats work as a burden and moulds himself according to the culture.
- i. It is the culture of the organization which extracts the best out of each team member. In a culture where management is very particular about the reporting system, the employees however busy they are would send their reports by end of the day. No one



has to force anyone to work. The culture develops a habit in the individuals which makes them successful at the workplace.

Various types of organization culture

- a. **Normative Culture:** In such a culture, the norms and procedures of the organization are predefined and the rules and regulations are set as per the existing guidelines. The employees behave in an ideal way and strictly adhere to the policies of the organization. No employee dares to break the rules and sticks to the already laid policies.
- b. **Pragmatic Culture:** In a pragmatic culture, more emphasis is placed on the clients and the external parties. Customer satisfaction is the main motive of the employees in a pragmatic culture. Such organizations treat their clients as Gods and do not follow any set rules. Every employee strives hard to satisfy his clients to expect maximum business from their side.
- c. **Academy Culture:** Organizations following academy culture hire skilled individuals. The roles and responsibilities are delegated according to the back ground, educational qualification and work experience of the employees. Organizations following academy culture are very particular about training the existing employees. They ensure that various training programmes are being conducted at the workplace to hone the skills of the employees. The management makes sincere efforts to upgrade the knowledge of the employees to improve their professional competence. The employees in an academy culture stick to the organization for a longer duration and also grow within it. Educational institutions, universities, hospitals practice such a culture.
- d. **Baseball team Culture:** A baseball team culture considers the employees as the most treasured possession of the organization. The employees are the true assets of the organization who have a major role in its successful functioning. In such a culture, the individuals always have an upper edge and they do not bother much about their organization. Advertising agencies, event management companies, financial institutions follow such a culture.
- e. **Club Culture:** Organizations following a club culture are very particular about the employees they recruit. The individuals are hired as per their specialization,



educational qualification and interests. Each one does what he is best at. The high potential employees are promoted suitably and appraisals are a regular feature of such a culture.

- f. **Fortress Culture:** There are certain organizations where the employees are not very sure about their career and longevity. Such organizations follow fortress culture. The employees are terminated if the organization is not performing well. Individuals suffer the most when the organization is at a loss. Stock broking industries follow such a culture.
- g. **Tough Guy Culture:** In a tough guy culture, feedbacks are essential. The performance of the employees is reviewed from time to time and their work is thoroughly monitored. Team managers are appointed to discuss queries with the team members and guide them whenever required. The employees are under constant watch in such a culture.
- h. **Process Culture:** As the name suggests the employees in such a culture adhere to the processes and procedures of the organization. Feedbacks and performance reviews do not matter much in such organizations. The employees abide by the rules and regulations and work according to the ideologies of the workplace. All government organizations follow such a culture.

Factors that affect the organization culture

- a. **Employees:** The first and the foremost factor affecting culture is the individual working with the organization. The employees in their own way contribute to the culture of the workplace. The attitudes, mentalities, interests, perception and even the thought process of the employees affect the organization culture. Example - Organizations which hire individuals from army or defence background tend to follow a strict culture where all the employees abide by the set guidelines and policies. Organizations with majority of youngsters encourage healthy competition at the workplace and employees are always on the toes to perform better than the fellow workers.
- b. **Gender of employee:** The sex of the employee also affects the organization culture. Organizations where male employees dominate the female counterparts follow a



culture where late sitting is a normal feature. The male employees are more aggressive than the females who instead would be caring and soft hearted.

- c. **The nature of the business:** This also affects the culture of the organization. Stock broking industries, financial services, banking industry are all dependent on external factors like demand and supply, market cap, earning per share and so on. When the market crashes, these industries have no other option than to terminate the employees and eventually affect the culture of the place. Market fluctuations lead to unrest, tensions and severely demotivate the individuals. The management also feels helpless when circumstances can be controlled by none. Individuals are unsure about their career as well as growth in such organizations.
- d. **Organisation Goal and Objective:** The culture of the organization is also affected by its goals and objectives. The strategies and procedures designed to achieve the targets of the organization also contribute to its culture.
- e. **Impact of Clients:** The clients and the external parties to some extent also affect the work culture of the place. Organizations catering to UK and US Clients have no other option but to work in shifts to match their timings, thus forming the culture.
- f. **The management and its style** of handling the employees also affect the culture of the workplace. There are certain organizations where the management allows the employees to take their own decisions and let them participate in strategy making. In such a culture, employees get attached to their management and look forward to a long term association with the organization. The management must respect the employees to avoid a culture where the employees just work for money and nothing else. They treat the organization as a mere source of earning money and look for a change in a short span of time.

Elements of Organizational Culture

Organizations develop their own culture. The culture of an organization consists of elements that are valued and practiced. The emerging challenges for communicating and organizing in a global/local operational environment (think globally, act locally) are based on understanding the interrelationships among cultural differences, communication behaviours, and organizational relationships both within and outside of the organization. The challenge



for a manager is to examine the current culture and style of communication operating within an organization and to develop communication skills for today's complex work environment. The following list outlines some of the key elements of organizational culture:

- a. **Values:** The goals, views, and philosophies that an organization shares. Example: The organization's mission statement.
- b. **Rites and Rituals:** Celebrations, performances, and activities that foster and reinforce teamwork, *esprit de corps*, and a sense of inclusion. They are what make employees feel part of something bigger than themselves, that something is worth being a part of. These can include annual parties, sales meetings, organizational retreats, or any other group activities.
- c. **Heroes:** Members of the organization who personify its values and highlight its vision.
- d. **Communication Networks:** Informal channels that relay both work and social messages. These networks not only convey information necessary to get the job done, but also provide for necessary social interaction among employees. Even though the primary task in any organization is to do our jobs, the organization is also a social outlet. It is important to acknowledge and even nurture the social interaction that is part of any organizational or organizational culture. Communication networks also indoctrinate new members into the culture, and reinforce the cultural messages in the organization.
- e. **Norms:** The ways of doing things in an organization; the rules, tasks and standards of the organization. Examples: Dress codes or the ways in which the superiors and the subordinates, leading ethics, etc.
- f. **Stories, Myths, and Legends:** The organizational history and other stories that embody the organizational culture and emphasize what the organization values. .
- g. **Organizational/Communication Climate:** The atmosphere of either supportiveness or defensiveness that people feel within the organization itself. Do they feel safe? Protected? Appreciated? Are they confident that their opinions count? Do they know that when they have something to say, they have a way to say it so that it will be heard, and that people will listen and take their ideas or comments seriously?



The overall organizational climate also includes the organization's communication climate—how free people feel to communicate at work, especially about bad news or negative information. When people feel they cannot communicate bad news for fear of reprisal, the organization loses valuable information about how it operates.

Hofstede's five dimensions of culture

- a. **Small vs. large power distance:** This refers to how a society handles inequalities and the extent to which the less powerful members of organizations and institutions (like family) accept and expect that power is distributed unequally.
- b. **Individualism vs. collectivism:** Behavior towards community. The degree to which individuals are integrated into groups or are expected to look after themselves and self-actualize.
- c. **Masculinity vs. femininity:** Behavior and roles distributed according to gender. This dimension is often renamed by users of Hofstede's work to Quantity of Life vs. Quality of Life because one of the notable findings in the IBM studies revealed that in 'masculine' cultures, people (whether male or female) value competitiveness, assertiveness, ambition, and the accumulation of wealth and material possessions whereas in 'feminine' cultures, people (again whether male or female) value relationships and quality of life.
- d. **Weak vs. strong uncertainty avoidance:** This refers to the level of need for structure. Cultures with low uncertainty avoidance tend to accept risk and change and prefer implicit or flexible rules and guidelines.
- e. **Long vs. short term orientation:** How much society values long-standing, as opposed to short term, traditions and values. Cultures with high long-term orientation place strong importance on family, discipline and social obligations.

Influence of Foreign Culture in Business

Businesses do not exist in a vacuum, and even the most successful business must be aware of changes in the cultures and societies in which it does business. As society and culture change, businesses must adapt to stay ahead of their competitors and stay relevant in the minds of their consumers. One of key factor to be understood is the role foreign culture in the business in this internationalised era. Where there would be a difference in the culture practised.



Cultural differences will have a direct impact on profitability. Improving the level of knowledge of international cultural difference in business can aid in building international competencies as well as enable to gain a competitive advantage. However, on the one hand it is important to be aware of cultural differences of different countries, on the other, it is also hard to be aware of every single aspect of each country's organisational culture. Therefore, one should be aware of the key factors that have a direct impact on business. These are:

- a. **Communication:** It is the key to success for any business, whether the business is operated nationally or internationally, but when operating internationally it becomes even more important due to language barriers. This barrier can be removed by providing training materials in the languages of the country in which the business is operated.
- b. **Body language:** It is another key factor in cultural difference. As different countries have different ways to convey or share their message, for instance in Germany people tend to speak loudly when sharing ideas, whereas in Japan people speak softly, it is very important to know what body language should be used when interacting with people.
- c. **Differential Market:** Before launching a marketing campaign, always conduct research to become aware of the target audience since customer demand, decision making, gender views and ideologies greatly vary in different cultures.
- d. **Changing Preferences:** Being aware of basic customer needs is an important aspect as this will give the advantage of conveying the message. A major socio-cultural factor influencing businesses and business decisions is changing consumer preferences that too in this internationalised era. What was popular 20 years ago may not be popular today or 10 years down the road. Different styles and priorities can undermine long successful products and services.
- e. **Demographics:** Changes in demographics are also a significant factor in the business world. As populations age, markets for popular music and fashions may shrink while markets for luxury goods and health products may increase. Additionally, the globalisation, changes in the proportion of genders and different racial, religious and ethnic groups within a society may also have a significant impact on the way a company does business.



- f. **Advertising Techniques:** Advertising is perhaps the area of business most closely in touch with socio-cultural changes. The influence of the foreign culture does have a strong influence on the ideologies. Advertising often needs to be trendsetting, and to do this, advertising agencies need to know the pulse of the societies in which they engage in business. Changes in morals, values and fashions must all be considered when creating outward facing advertising. In simple terms, awareness of the customer's cultural background and its changes will help to adopt better and more suitable advertising methods.
- g. **Internal Environment:** In addition to a company's interactions with the market and its customers, socio-cultural factors also impact a company's internal decision-making process. For example, changing gender roles and increasing emphasis on family life have led to increased respect for maternity and even paternity leave with organizations. Additionally, attitudes towards racial discrimination and sexual harassment have changed drastically over the years as a result of socio-cultural change.

Impact of Values in Business: Values describe what is important to life. They give meaning to life, are the foundation for beliefs, they influence decisions, actions and behaviour and impact the life. Values include respect, openness, independence, privacy, financial security, creativity, optimism, happiness, family oriented, success, healthiness, compassion, kindness, perseverance, spontaneity, trust, perfection, modesty, loyalty, fun, professionalism and accuracy.

Everyone has a different set of values with varying degrees of importance given to each value. One may be conscious and very aware of values or may hold them in subconscious acting on them but not being consciously aware of them. These values impact work in the below said ways

- a. The values put into practise supports and energises the work
- b. Sometime the values system creates conflicts with the work
- c. The conflicts in values may result in the creation of stress at work
- d. Differences in the values among individuals impact the relationships at work.
- e. The values that are in practice inform one is in the right role or business.
- f. The differential values result in creating discord between personal and business life.
- g. Differential values create conflict with each other.



- h. Values are also a major Influencing factor in the leadership style of a person.

QUESTIONS FOR DISCUSSION

1. Explain Culture and its importance
2. Explain various types of Organisation Culture
3. What are the factor that affect an Organisation Culture
4. Explain the influence of foreign culture in Business

CHAPTER - 3

CHANGE MANAGEMENT AND BUSINESS

Change: It is defined as an act or process through which something becomes different from what it is or from what it would be if left alone.

Change management: Change management is the discipline that guides how organisations prepare, equip and support individuals to successfully adopt change in order to drive organizational success and outcomes. Change management provides a structured approach for supporting the individuals in an organization to move from their own current states to their own future states.

Importance of Change Management: The change management helps organisation in the following ways

- a. Minimize resistance
- b. Increase engagement
- c. Improve performance
- d. Reduce costs
- e. Enhance innovation



Levels of change management

- a. **Individual Change Management:** Individual change management requires understanding how people experience change and what they need to change successfully. It also help people make a successful transition. The understanding helps to identify the right resource, right timing, right skills to be coached for an individual. Individual change management draws on disciplines like psychology and neuroscience to apply actionable frameworks to individual change.
- b. **Organizational Change Management:** Organizational change management involves first identifying the groups and people who will need to change as the result of the project, and in what ways they will need to change. It involves creating a customized plan for ensuring impacted employees receive the awareness, leadership, coaching, and training they need in order to change successfully. Driving successful individual transitions should be the central focus of the activities in organizational change management. Organizational change management ensures that the project's solution is effectively embraced, adopted and used.
- c. **Enterprise Change Management Capability:** Enterprise change management is an organizational core competency that provides competitive differentiation and the ability to effectively adapt to the ever-changing world. An enterprise change management capability means effective change management is embedded into the organization's roles, structures, processes, projects and leadership competencies. The end result of an enterprise change management capability is that individuals embrace change more quickly and effectively, and organizations are able to respond quickly to market changes, embrace strategic initiatives, and adopt new technology more quickly and with less productivity impact. This capability requires a strategic approach to embed change management across an organization.

Resistance to Change

Resistance to change is the action taken by individuals and groups when they perceive that a change that is occurring as a threat to them. The threat need not be real or large for resistance to occur. Resistance is the equivalent of objections and disagreement in general



discussions. Resistance may take many forms, including active or passive, overt or covert, individual or organized, aggressive or timid.

Reasons for resistance to change

- a. Misunderstanding about the need for change i.e. when the reason for the change is unclear
- b. Fear of the unknown
- c. Lack of competence
- d. Connected to the old way of doing things.
- e. Low trust on the company or the one who brings in the change
- f. Resistance arises when change initiative is seen Temporary fad
- g. Resistance arises when people are not being consulted
- h. Poor communication by the agents to the participants. More the communication more the participation and less the resistance.
- i. People bound to be resistance whenever change requires us to do things different from the routines.
- j. Too much of change leads to Exhaustion/Saturation and results in lesser motivation.
- k. Change in the status quo
- l. Benefits and rewards

QUESTIONS FOR DISCUSSION

1. What is change management? Explain its levels.
2. Explain the reasons for the resistance to changes.



CHAPTER – 4

INDIAN SOCIAL SYSTEM AND BUSINESS

Caste and Business

Caste system: Caste system is a process of placing people in occupational groups. It has pervaded several aspects of Indian society for centuries. Rooted in religion and based on a division of labor, the caste system, among other things, dictates the type of occupations a person can pursue and the social interactions that she may have.

The **caste system in India** is a system of social stratification which has pre-modern origins, was transformed by the British Raj and is today the basis of educational and job reservations in India. It consists of two different concepts, varna and jāti, which may be regarded as different levels of analysis of this system. Varna may be translated as "class," and refers to the four social classes which existed in the Vedic society, namely Brahmins, Kshatriyas, Vaishyas and Shudras. Certain groups, now known as Dalits. Whereas Jāti may be translated as caste, and refers to birth. The names of jātis are usually derived from occupations, and considered to be hereditary and endogamous. The varnas and



jatis have pre-modern origins, and social stratification may already have existed in pre-Vedic times. The caste system as it exists today is thought to be the result of developments during the collapse of the Mughal era and the British colonial regime in India.

Religion: Religion in India is characterised by a diversity of beliefs and practices. The Indian subcontinent is the birthplace of four of the world's major religions namely Hinduism, Buddhism, Jainism and Sikhism. Throughout India's history, religion has been an important part of the country's culture. Religious diversity and tolerance are established in the country by the law and custom. Constitution of India has declared the right to freedom of religion to be a fundamental right. According to the 2016 census, 69.8% of the population of India practices Hinduism and 24.2% adheres to Islam, while the remaining 6% adheres to other religions (Christianity, Sikhism, Buddhism, Jainism and various indigenous ethnically-bound faiths).

Northwest India was home to one of the world's oldest civilizations, the Indus valley civilisation. India is a home to around 90% of the global population of Hindus. Most Hindu shrines and temples are located in Indian so also the birthplaces of most Hindu saints. Allahabad hosts the world's largest religious pilgrimage, Kumbha Mela, where Hindus from across the world come together to bathe in the confluence of three sacred rivers of India: the Ganga, the Yamuna, and the Saraswati. The Indian diaspora in the West has popularised many aspects of Hindu philosophy such as yoga, meditation, Ayurvedic medicine, divination, karma, and reincarnation. The influence of Indian religions has been significant all over the world. Several Hindu-based organisations, such as the Hare Krishna movement, the Brahma Kumaris, the Ananda Marga, and others have spread Indian spiritual beliefs and practices.

The Caste system and religious factors in India are under the impact of certain powerful factors and is undergoing rapid transformation in modern days. The factors responsible for such a change in the system are as follows

- a. **Modern education:** Modern education that is based on democratic values like equality, liberty and fraternity. It is also grounded on scientific values like reason and observation. The spread has reversed the people's belief in the divine origin of caste,



religion, Karma and Karmaphala. As modern education is usually imparted in co-educational institutions, it encourages inter-caste/religious marriage and inter-caste/religious mixing. Moreover, it acts as a powerful force towards the removal of untouchability.

- b. **Industrialization:** The process of industrialization has affected the structure to a remarkable extent. Industrial growth has provided new sources of livelihood to people and made occupational mobility possible. This has dented the systems in practise. Industrialization has given rise to the emergence of new social classes. These social classes are replacing the traditional castes.
- c. **Urbanization:** Industrialization has given rise to the process of urbanization. New townships have emerged. The ruralites migrate to these towns in order to avail better employment opportunities where the possibility to observe communal inhibitions and taboos against food-sharing gets reduced or becomes nil.
- d. **Modern means of transport and communication:** Modern means of transport and communication are instrumental in increasing spatial mobility of the people and thereby put an end to the caste system. Means of transport like train, bus, tram, airplane etc. cannot provide for distinctions between castes, and a leveling effect has been brought into the society.
- e. **Increase in the importance of wealth:** Under the caste system, birth was taken as the basis of social prestige. But today, wealth has replaced birth as the basis of social prestige. Occupations are now no longer caste-based. People while choosing their occupations attach greater importance to income rather than anything else. With this change of emphasis, the Indian caste system is in the process of being replaced by the system of social classification as prevails in western countries.
- f. **The new legal system:** The new legal system, introduced by the British Government, has given a severe blow to the caste system in India. Equality before law irrespective of castes has been firmly instituted. Consequently, the age old discrimination against the lower castes has been removed. Further, with the establishment of law courts, the traditional castes Panchayats have lost their power and effectiveness to punish the deviants. Not only that a number of Acts like the Untouchability Offences Act of 1955 and the Hindu Marriage Act of 1955 have abnegated the evil effects of the caste system.



- g. **Westernization:** By promoting education, egalitarianism, rationalism, humanism and a critical outlook towards various social issues and problems, westernization has gone a long way in undermining the influence of the caste system. It has given severe blow to practices like child marriage, purity and pollution, commensality, untouchability etc. The effects of westernization are prominently visible in the form of inter-caste marriages, intercommunity marriages, inter-religious marriages, occupational changes etc. In this way westernization has brought about profound changes in the Indian society.
- h. **Secularization:** By legitimizing secular ideologies and formal legal doctrines and promoting rationality, scientific attitude and differentiation, secularization has affected certain characteristics of the caste system especially the concept of purity and pollution, commensality, fixity of occupation etc.
- i. **Socialistic Ideas:** Caste system is based on the ideas of high birth and low birth. Whereas socialists believe that the differences between human beings have been created by society; hence the society only can remove them. As a result of such socialist thought, caste system is breaking.
- j. **New Social Movements:** Some social movements have also attacked the caste system. The Brahma Samaj movement led by Raja Ram Mohan Roy, the Prarthana Sabha movement supported by Justice Ranade, the Arya Samaj movement founded by Swami Dayananda Saraswati and Ramakrishna Mission movement rejected the barriers of caste divisions and stood for universalisation and brotherhood of man. These brought about certain social reforms like inter-caste marriage, interdining and remarriage of widows, etc.
- k. **Influence of Indian Constitution:** Indian Constitution bestows some fundamental rights on the citizens irrespective of caste, creed, colour or sex. It offers equal opportunities to all. Para 15(2) of the Constitution, which declares all citizens as equal, directly attacks the Hindu social order based on inherited inequality. This results in the withering of the caste system.

Joint Family and Business



Joint Family: A joint family (also undivided family, joint household, extended family system) is a large undivided family where more than one generation live together in a common house. In such form of family system, every member

- is expected to make some financial contribution to the common fund,
- share common rights in the household property,
- eat the food made at the common kitchen, and
- make their daily expenditure from common fund.

Joint family is a peculiar and unique social institution of Indian Society with peculiar characteristics of Indian Social life. Since its origin it has been instrumental in providing protection, economic support and recreation to its members. It also helps in fostering good qualities among the members. It nourishes and socializes its members. In such form of families, the son doesn't distant himself after getting married. Instead, he lives with his wife and children in the same house along with his other family member. The eldest male member is the head of the joint family. His power and functions are like that of a trustee. He is entitled to take economic and social decisions on behalf of the family.

Characteristics of Joint Family System: The joint family system has the following characteristic features

- a. The head of the family is given maximum power and authority.
- b. The land and property belong to the family as a whole. The head of the family considered as trustee of the property.
- c. Income sources are pooled together.
- d. All members earn as per their capacity but spend as per the needs of the family.
- e. Same gods and goddesses are worshiped.
- f. Joint family has common sufferings and rejoicing.
- g. Family as a whole owns the entire means, production and consumption.
- h. There is security against unemployment, sickness, old age etc.

The Functions of Joint Family: As an important social institution it has brought about the well-being of its members in several ways. It performs many functions. Some of are stated below



- a. **Economic functions:** Joint family guarantees food, clothing and shelter to its members. All the members of joint family works together on a cooperative basis and in that way it saves money that would have been spent on hired labour. Besides collective purchase of household articles also saves money. It avoids fragmentation of agricultural land and thereby helps in increasing productivity. By this way joint family ensures economic progress of the family as well as society.
- b. **Protective functions:** Joint family acts as a safe home for the physically or mentally handicapped, sick, old members. It also acts as an asylum for the orphans. It assures a proper living for the widows. Thus joint family acts as a social insurance company for the old, sick and destitute.
- c. **Recreational functions:** Joint family provides healthy recreation to all its members. By arranging feasts on different religious, social and festive occasions it provides recreation to its members. The joking relationships in the joint family are another source of amusement.
- d. **Fosters social virtues:** Joint family fosters good social virtues like sacrifice, love, affection, cooperation, mutual help, selflessness, renunciation among its members and makes the family a cradle of social virtues. Under care and guidance of the elders the youths are prevented from being wayward. These social virtues are learned during the process of socialization.
- e. **Socialism:** Socialism prevails in joint family because it believes in the socialistic principle i.e. “from each according to his ability and to each according to his necessity. In short joint family is like a corporation where the father acts as it’s trustee. Earnings of all the members are kept in a common family fund from where the expenditures are met.



- f. **Acts as a unique device of division of labor:** Joint family acts as a unique system of division of labor. All the advantages of modern division of labor are enjoyed by joint family. All the works of the family are equally distributed according to the abilities of its members. All the family members help during harvesting of crops. None is overburdened. It brought economic benefits to family.
- g. **Provides leisure:** Joint family provides necessary leisure to its members. As all the works are divided among the members and it finish within a little time and the rest time is spent in leisure. Besides the sick and old member are provided with more leisure
- h. **Agency of social control:** Joint family acts as an agency of social control. As an informal agency it controls the deviant behaviors of its members. The unsocial and anti-social activities of its members are suppressed within a healthy family environment.
- i. **Agency of Socialization:** Joint family acts as an important agency of socialization. Family first socializes the child. Child learns a number of civic virtues in the family. The environment of family guides the growth of a child. The child gets his first lessons in the family. The family moulds the personality of the individual and continues to exercise its influence throughout life.

Advantages of Joint Family: The advantages of a joint family are more than one can count.

- a. It is the best pattern of living that is most conducive to the growth.
- b. It is based on a principle of fair economy. It holds it as a rule of creation that all men are not equal. Naturally it imposes a kind of unwritten discipline that those who are more able economically shall share some of the burden of those who are not.
- c. The joint mess, naturally, runs on an understanding of mutual adjustment. Naturally those who are benefited by the generosity of others remain obliged and grateful.
- d. Similarly in a big joint family the study groups of boys are formed according to their age matching. Naturally the cousins study together, play together, quarrel together and are even punished together. As a result there grows in them a feeling of camaraderie that is free from any discrimination of one being a full brother or a cousin.
- e. In marriages also the grooms for marriageable girls become a concern for all the elders in the family. Even if a daughter of a junior brother is selected by someone



because of her beauty or brilliance, he would not agree to her marriage until her senior cousin sister is married.

- f. The basic necessities of all the family members are taken care of. Each member is guaranteed the minimum subsistence for living.
- g. It supports all the members of the family. Old and elderly people are respected. Proper care is taken for old, widowed, physically weak and disabled family members.
- h. As such the disciplines in a joint family are self-imposed on its members. The head of the big family almost becomes its patriarch. The family prospers squarely if the patriarch and the other constituents observe the norms soundly and healthily.
- i. Finally, the spirit of oneness prevails in a Joint family system.

Disadvantages of Joint Family: But it has disadvantages too.

- a. It often creates parasites who love to feed on other's income. They exploit the goodness and principled behaviour of its partners.
- b. Sometimes some crooked member of the family plot to torture and exploit another innocent member of the family.
- c. High earning members often insults the low earning members.
- d. The cost of education has gone up high. The high earning members often want their children to study in costly schools but they don't want to share the burden of the children of the other members of the family.
- e. In large families, most of important decisions are made by the head of the family. Since, all the individuals within the family doesn't get the opportunity to participate in major decisions of the family, they often feel lost or develop a feeling of inferiority complex.

The separation of families was evident in the joint families themselves. It happens when feelings of generosity, charity, and fellow-feeling are not balanced by strong moral line, character and farsightedness. Joint family can be run successfully if the members remain committed to each other. The felling of togetherness and selflessness is the essence of joint family. Such factors have vitally affected the caste system. But it is highly improbable that the system will altogether be eliminated from the Indian social scene. It may assume new forms and perform new functions in the changed conditions of modern society.



Reason for the rise of nuclear family system: The joint family system in India does not exist in cities and towns due to the following reasons.

- a. Rise in Educational level.
- b. Desire for Independence.
- c. Economic Independence of Women.
- d. Development of Transport and Communication facilities.
- e. Impact of Western culture.
- f. The increasing pressure of population on land.
- g. Industrialization.
- h. Spirit of individualism.

Impact of Joint Family System on Indian Business: Joint family system has a positive impact on social and cultural level in India. However, it exerts a negative influence on Indian business.

- a. In joint family system, all members of the family live together and in such a set up increase in number of members will result in increase in population without the creation of additional purchasing power particularly for luxurious goods. It is meaningless as far as business concerns are concerned.
- b. In a joint family system, members of the family hesitate to move away from their family for taking up employment in distant place. It makes cost of labor high. The orthodoxy and conservatism in joint family system leads to technological backwardness in Indian business.

QUESTIONS FOR DISCUSSION

1. What are the functions of a joint family system.
2. What is the impact of caste in business?
3. What are the reasons of change in the caste system?



Unit III

CHAPTER 5

SOCIAL RESPONSIBILITY OF BUSINESS

Every business enterprise is an integral part of the society. It uses the scarce resources of the society to continue and grow. Hence, it is important that no activity of business is injurious to the long run interests of the society. However, it is observed that, in practice, there are a few socially undesirable aspects of business such as, polluting the environment, non-payment of taxes, manufacturing and selling adulterated products, giving misleading advertisement and so on. This has resulted in the development of the concept of social responsibility of business whereby the owners and managers of business are made conscious about the responsibilities of their business towards the community and its customers, workers etc.

Social Responsibility: Social responsibility of business refers to the obligation of business enterprises to adopt policies and plans of actions that are desirable in terms of the expectation, values and interest of the society. It ensures that the interests of different groups of the public are not adversely affected by the decisions and policies of the business. 3.4.2

Importance of Social Responsibility to business: Social responsibility is a voluntary effort on the part of business to take various steps to satisfy the expectation of the different interest groups such as owners, investors, employees, consumers, government and society or community. The importance of following is as follows

- a. **Public Image:** The activities of business towards the welfare of the society earn goodwill and reputation for the business which in turn bring in customers as well as attracts honest and competent employees to work with such employers.
- b. **Government Regulation:** To avoid government action business should discharge their duties voluntarily, failing which may ultimately force the firm to close down its business.
- c. **Survival and Growth:** Every business is a part of the society. Business utilizes the available resources like power, water, land, roads, etc. of the society. So for its survival and growth, support from the society is very much essential.



- d. **Employee satisfaction:** Besides getting good salary, employee expect a good and healthy atmosphere to work. It is the employers duty to provide the same a employee satisfaction is directly related to productivity.
- e. **Consumer Awareness:** Consumers have become very conscious about their rights. They protest against the supply of inferior and harmful products by forming different groups. This has made it obligatory for businesses to protect the interest of the consumers by providing quality products at the competitive price.

Social Responsibilities towards Different Groups: Responsibilities of the business cannot be limited to the owners. The interest other stakeholders has to be accounted. They are as follows

- a. **Responsibility towards the shareholders or owners:** The shareholders or owners are those who invest their money in the business. They should be provided with a fair return on their investment as dividends. It has to be ensured that the rate of dividend is commensurable with the risk involved and the earnings made. Besides dividends, the shareholders also expect an appreciation in the value of shares. This is governed primarily by company's performance.
- b. **Responsibility towards the Employees:** A business enterprise must ensure a fair wage or salary to the workers based on the nature of work involved and the prevailing rates in the market. The working conditions must be good in respect of safety, medical facilities, canteen, housing, leave and retirement benefits etc. They should also be paid reasonable amount of bonus based on the business earnings. Preferably, there should also be a provision for their participation in management
- c. **Responsibility towards the Consumers:** A business enterprise must supply quality goods and services to the consumers at reasonable prices. It should avoid adulteration, poor packaging, misleading and dishonest advertising, and ensure proper arrangement for attending to customer complaints and grievances.
- d. **Responsibility towards the Government:** A business enterprise must follow the guidelines of the government while setting up the business. It should conduct the business in lawful manner. It should not indulge in any corrupt practices or unlawful activities. The various responsibilities of business towards government are
 - i. Setting up units as per guidelines of government



- ii. Payment of fees, duties and taxes regularly as well as honestly.
 - iii. Not to indulge in monopolistic and restrictive trade practices.
 - iv. Conforming to pollution control norms set up by government.
 - v. Not to indulge in corruption through bribing and other unlawful activities.
- e. **Responsibility towards the Community:** Every business is a part and parcel of our community. So it should contribute towards the general welfare of the community. It should preserve and promote social and cultural values, generate employment opportunity and contribute towards the upliftment of weaker sections of the society. It must take every step to protect the physical and ecological environment of the society. It should contribute to the community development programmes like public health care, sports, cultural programmes. Broadly, the corporate social responsibility covers health, safety, environment and education, surrounding its establishments. The business has certain responsibilities towards society, which may be as follows:
- i. To help the weaker and backward sections of the society
 - ii. To preserve and promote social and cultural values
 - iii. To generate employment
 - iv. To protect the environment
 - v. To conserve natural resources and wildlife
 - vi. To promote sports and culture
 - vii. To provide assistance in the field of developmental research on education, medical science, technology etc.
- f. **Responsibility towards suppliers:** Suppliers are businessmen who supply raw materials and other items required by manufacturers and traders. Certain suppliers, called distributors, supply finished products to the consumers. The responsibilities of business towards these suppliers are:
- i. Giving regular orders for purchase of goods.
 - ii. Dealing on fair terms and conditions.
 - iii. Availing reasonable credit period.
 - iv. Timely payment of dues.
- g. **Responsibility towards competitors:** Competitors are the other businessmen or organizations involved in a similar type of business. Existence of competition helps the business in becoming more dynamic and innovative so as to make itself better



than its competitors. It also sometimes encourages the business to indulge in negative activities like resorting to unfair trade practices. The responsibilities of business towards its competitors are

- i. Not to offer exceptionally high sales commission to distributors, agents etc.
- ii. Not to offer to customers heavy discounts and /or free products in every sale.
- iii. Not to defame competitors through false or ambiguous advertisements.

Business Ethics: Business ethics is the study of proper business policies and practices regarding potentially controversial issues, such as corporate governance, insider trading, bribery, discrimination, corporate social responsibility and fiduciary responsibilities. Law often guides business ethics, while other times business ethics provide a basic framework that businesses may choose to follow to gain public acceptance.

Business ethics ensure that a certain required level of trust exists between consumers and various forms of market participants with businesses. Business ethics goes beyond just a moral code of right and wrong; it attempts to reconcile what companies must do legally versus maintaining a competitive advantage over other businesses. Firms display business ethics in several ways.

Characteristics of Business Ethics

- a. **Code of conduct:** Business ethics is a code of conduct. It tells what to do and what not to do for the welfare of the society. All businessmen must follow this code of conduct.
- b. **Based on moral and social values:** Business ethics is based on moral and social values. It contains moral and social principles (rules) for doing business. This includes self-control, consumer protection and welfare, service to society, fair treatment to social groups, not to exploit others, etc.
- c. **Gives protection to social groups:** Business ethics give protection to different social groups such as consumers, employees, small businessmen, government, shareholders, creditors, etc.



- d. **Provides basic framework:** Business ethics provide a basic framework for doing business. It gives the social cultural, economic, legal and other limits of business. Business must be conducted within these limits.
- e. **Voluntar :** Business ethics must be voluntary. The businessmen must accept business ethics on their own. Business ethics must be like self-discipline. It must not be enforced by law.
- f. **Requires education and guidance:** Businessmen must be given proper education and guidance before introducing business ethics. The businessmen must be motivated to use business ethics. They must be informed about the advantages of using business ethics. Trade Associations and Chambers of Commerce must also play an active role in this matter.
- g. **Relative Term:** Business ethics is a relative term. That is, it changes from one business to another. It also changes from one country to another. What is considered as good in one country may be taboo in another country.

Importance of Business Ethics

- a. Building on a foundation of ethical behavior helps create long lasting positive effects for a company, including the ability to attract and retain highly talented individuals and building and maintaining a positive reputation within the community.
- b. Running a business in an ethical manner from the top down builds a stronger bond between individuals on the management team, further creating stability within the company.
- c. Employees make better decisions in less time with business ethics as a guiding principle; this increases productivity and overall employee morale.
- d. The ethical operation of a company is directly related to profitability in both the short and long term. The reputation of a business from the surrounding community, other businesses and individual investors is paramount in determining whether a company is a worthwhile investment.

Questions for Discussion

1. What is Social responsibility of business? Explain the social responsibility of business towards different groups.
2. What is Business Ethics? Explain its characteristics and importance.



CHAPTER – 6

POPULATION AND DEMOGRAPHY

Population: A **population** is the number of all the organisms of the same group or species, which live in a particular geographical area. In sociology, population refers to a collection of humans. Demography is a social science which entails the statistical study of human populations.

Effects of Changes in Population: Businesses react to the world around them. Products are sold not based on the business' designs but on the strength of the customers' needs. Therefore, it is vital for small businesses to be responsive to population shifts and lifestyle changes that are widely adopted by customers. Shifts in population and migration affect the composition of your workforce and influence the type of products your customers can purchase. Meanwhile, widespread lifestyle changes can influence the benefits businesses have to provide to their employees and what products they can sell to their customers.

- a. **Population Changes:** A population change occurs when the number of people in a geographical area increases or decreases. This can occur due to two causes. The first is through natural population change, which is caused by more births and fewer deaths. The second method of population change is through migration. Generally, every year people move out of an area and others move in. If more people immigrate than emigrate, the population of the area will grow.
- b. **Lifestyle Changes:** A person's lifestyle is essentially who he is. A person's habits, beliefs, morals and financial status combine to manifest how he chooses to live his life. It determines the choices he makes, the things he wants and the things he purchases. Understanding the general lifestyle trends of a population can allow a business to better market itself. If those trends change, the business needs to change.
- c. **Effects on Employees:** When populations grow due to immigration, one of the results is a decrease of net wages. With more workers available, people will be willing to work for less in exchange for a job. With lower wages, businesses can either increase their margins or decrease their price to increase overall sales.



- d. **Effects on Profitability:** The short-term benefits of lower wages could actually decrease long-term profitability. Because labour would be so cheap, businesses would have less reason to innovate. The lack of innovation could prevent businesses from adopting cost-saving measures that could make the businesses more profitable in the long run. In addition, widespread lifestyle changes may cause increased demands in employee benefits and workplace culture.
- e. **Effects on Customers:** While employee wage demands may decrease when the population increases, prospective customers in the area will also be subject to lower wages. Lower wages mean less disposable income for purchasing a small business' products. So, to maintain sales levels, a business would have to decrease its sales price.

Demography: Demography is the study of human populations in terms of size, locations, gender, race, occupation, etc. The Demography environment is of major interest because involves people, and people make up markets. Since the world is getting crowded and overpopulated and diverse leads always for opportunities and challenges.

Effects of changes in Demography: Changes in the world demographic environment have major implications for business. Marketers need to keep a close eye on demographic trends and developments in their markets.

- a. Geographic shifting of population is happening more often, especially in family where members are better educated, more white-collars population are getting generated and it increasing diversity of needs and wants. The rising number of educated professionals will affect not just what people buy but also how they buy.
- b. More the workforce becomes white-collar. The supply side become weakest for manufacturing workers. This alters the cost of employment of both blue and white collars.
- c. Consumers giving more concern for value are shifting consumer spending patterns; squeezed consumers are seeking greater value at a fair price.
- d. The changing age structure of the population is again a point to be noted. Declining birth rates and longer life expectancy make the population get older. This aging of the population will have a significant impact on markets and those who service them.



- e. Changing in the Family system due to education and migration in want of employment has led to the emergence of nuclear families with husband, wife, and children. This in turn has raised the demand for household products and services.
- f. Countries vary in their ethnic and racial makeup In Japan almost everyone is Japanese. Whereas in USA, people from many national and cultures has melted into a single, more homogeneous whole. This leads to the diverse market features.
- g. Changes in major economic variables, such as income distribution, cost of living, interest rates, and savings, spending pattern and borrowing patterns, have a large impact on the marketplace.

In conclusion, marketers must observe the demographic environment such as the changing age structure of populations, the geographic shifts in population, the diversity of the population because when you market a product you have to market it to the right people and target audience in that specific area. The marketers must pay closely attention in the the consumer spending, income distribution because these have a large impact on the marketplace because of the consumer buying habits as the changes in the demographic environments definitely affect marketing decisions.

Standard of Living: Standard of living' refers to the necessities, comforts and luxuries which a person is accustomed to enjoy. It also means the quantity and quality of their consumption.

Standard of Living and Standard of Life: A distinction is being made between standard of living and standard of life. Standard of living , refers to our usual scale of expenditure, the goods that is consumed and the services enjoyed, the attitudes and values followed. Standard of life is a much wider term. It refers to one's ideals in life. It includes a person's expenditure on his non-material requirements. "Simple living and high thinking" is a common axiom. "Simple living" hints at a low standard of living, but "high thinking" refers to a high standard of life. Mahatma Gandhi had a low standard of living but a high standard of life.

Factors Determining Standard of Living in a Country: A major objective of the government of a country is to provide good living to its people. Different countries of the



world provide different levels of living to their people. There are marked inequalities in the standards of living of the people in different countries of the world.

- a. On the one hand, there are advanced countries like the U.K., the U.S.A., Canada and the countries of Western Europe where standards of living are very high. These countries have been called affluent societies.
- b. On the other hand, there are under-developed countries like India, Pakistan, China, Burma, etc., where standard of living of the people is extremely low.

The extent of differences in the levels of living between the U.S.A. and India can be known from the comparison of per capita income in both countries on which the standard of living of a people primarily depends.

Main factors on which the standard of living in a country depends:

- a. **Level of National Income or Output:** The fundamental reason for the differences in the levels of living between different countries is the difference in their levels of national income. The level of national income depends upon the total volume of production in the country. Those countries having higher national income or output enjoy higher standard of living, while the countries having lower national income or output have lower standard of living. The main reason why standard of living is much higher in the U.S.A. than in India is that the level of national output in the U.S.A. is much higher than that in India.
- b. **Level of Productivity:** The total amount of goods and services which a country is able to produce, depends upon the levels of productivity in different branches of economic activity such as agriculture, industry, transport, etc. The higher the productivity per person engaged in agriculture, industry, etc., the higher will be the national output and the standard of living of the people. Difference in productivity is the major cause of differences in standards of living between different countries. The average productivity per person engaged in agriculture in the U.S.A. was 2,722 dollars, while it was only 147 dollars in India. This productivity per person engaged in agriculture was 2,336 dollars in Canada and 1,806 dollars in the U.K. Further, average productivity per person engaged in manufacturing was 5,488 dollars in the U.S.A.,



2,815 dollars in Canada, 1,332 dollars in the U.K. and only 320 dollars in India. The relative position is not much different even today.

- c. **Technology:** In advanced countries, people work with greater amount of capital equipment like machinery in a productive process. Developed countries have highly mechanized their processes of production. On the other hand, in under-developed countries, work with small capital equipment. Moreover, in developed economies not only capital per head is greater but the techniques of production used are much superior to those employed in under-developed countries. In other words, developed countries make use of advanced technology in the production of goods and services, while the under-developed countries are technologically backward. Productivity per person engaged in under-developed countries is much lower than that in advanced countries.
- d. **Terms of Trade:** Another factor which accounts for the differences in the levels of living between different countries is the rate of exchange between goods exported and goods imported. The rate of exchange between exports and imports is called the terms of trade. The terms of trade show how much of the goods a country imports can be obtained by a unit of the goods it exports. The terms of trade can be measured by taking the ratio of price-level of its exports to the price-level of its imports. The average standard of living in a country depends on the prices of goods it exports and the prices of goods it imports (i.e., terms of trade). If the terms of trade are more favorable for a country, it can import comparatively larger amount of goods for a given amount of exports and hence its standard of living will be higher.
- e. **Size of Population:** Another important factor which determines the standard of living of the people of a country is the size of its population. Given the total national income or output of a country, the greater the size of its population, the lower will be its average standard of living. It is the per capita income which in fact determines the average standard of living in a country. The per capita income of a country is determined by the total national income and the size of its population. Thus, the difference in the size of population also accounts for the difference in the standards of living between people of different countries.
- f. **Distribution of National Income:** Another determinant of the standard of living of the people of a country is the distribution of national income among the population. If there is large inequality in the distribution of income, then the standard of living of a



few rich people will be very high, while the standard of living of the masses of the people will be extremely low.

- g. **General Price Level:** Another factor determining the standard of living of a people is the general price level in the country. Given the national income, the standard of living of the people will be lower when the price is high and higher when the prices are low. Different price levels prevail in different countries. This also accounts for the differences in standards of living of the people between different countries. Other things being equal, if the price level in country A is higher than in B, the standard of living will be lower in A than in B.
- h. **Level of Education:** Another factor responsible for the differences in standards of living is the difference in the level of education. Educated people tend to have higher standard of living than the uneducated.

Factors Determining Individual Standard of Living: The following are the main factors on which the standard of living of an individual or a family depends

- a. **Income:** The most important factor on which the standard of living of a person depends is his income. The amount of necessities, comforts and luxuries which one enjoys are very largely governed by his income. A poor man's standard must be very low and that of a millionaire very high. In this monetized world, it is the purchasing power or earning power of a person which would determine his standard of living.
- b. **Size of the Family:** Coupled with a person's income is the size of the family which determines his standard of living, if a man has a large family, the family income will be thinly spread over the family and the standard of living will be lowered. Other things being equal, the smaller the size of the family, the higher is likely to be the standard of living. This underlines the importance of family planning.
- c. **Family Tradition:** A person inherits a certain standard of living from his parents. In most cases, such a standard of living will be maintained somehow. Departure from the traditional standard of the family is not easy.
- d. **Education, Tastes and Temperament:** A person's standard of living is also affected by his education, personal tastes and temperament. These factors would modify the standard that a person may have inherited from his family. He makes every effort to maintain it or improve upon it.



- e. **Social Customs and Conventions:** They are also bound to affect a person's standard of living, since the person lives in a society and normally follows the norms and practices followed by it. For reasons of his/her own and that of his family's honour, he/she may not like to lag behind in observing such norms and conventions in social ceremonies like marriages.
- f. **General Price Level:** For determining a person's or a family's standard of living, it is not enough to take into account only his/her income, but what the income is capable of buying in terms of goods and services, i.e., person's real income is more important for this purpose. That depends largely on the price level, particularly that of the goods and services which enter into that person's consumption. These are some of the factors on which a person's or a family's standard of living depends.

Causes of Low Standard in India: The following are the main causes:

- a. **Low National Income:** India has comparatively low national income. The national income of India compares very unfavorably even with some Asian and African countries. When the national income is low, the standard of living cannot be high.
- b. **Huge Population:** Relative to its resources, the country is over-populated. It has crossed the optimum size of population. This brings down the per capita income which is the most important single factor that determines the standard of living.
- c. **Under-Development:** Economically India is under-developed in agriculture. Trade, industry, transport, banking, etc. That is why the country's output is low and the national income is low, resulting in a low standard of living.
- d. **Climatic Factor:** Indian climate is such that our requirements in the matter of food, clothing and shelter are small. An average Indian can subsist on a handful of parched grams, his clothing may be scanty and for several months in the year, he can live outdoors. The needs being few, the standard of living is low.
- e. **Religious Tradition:** Most people in India have the other-worldly attitude. Even when they can afford to live well, they will deny themselves the pleasure. A Fakir in a loin cloth, like Mahatma Gandhi, living on frugal diet appeals more to the Indian mind. Simple living and high thinking seems to be the motto of the most.
- f. **Social and Family Obligations:** Social conventions compel us to spend heavily on our children or even on donations to others children's marriages even our funerals are



very expensive. Unless one stints throughout life, one cannot hope to discharge properly these social obligations. No wonder that an average Indian is condemned to a life of poverty and austerity.

Remedies to raise the standard of living in India: Efforts are being made in India now to raise our standard of living. The following are some of the measures adopted

- a. **Economic Development:** Our Five-Year Plans are designed to bring about rapid economic development. This will raise the national income and, therefore, standard of living.
- b. **Family Planning:** Side by side, curbs are being put to the torrent of babies. Family planning programmes are being pursued on a nation-wide scale. This will reduce the size of the families and make available larger share of income per head. The standard of living will therefore rise.
- c. **Spread of Education:** Educational facilities are being extended so that people learn the value of richer and fuller life. This also helps in raising the family income.
- d. **Improvement in the Means of Transport and Communication:** The people are now being brought closer to people who have a higher standard of living and unconsciously imitate them. This is a Powerful influence in raising our standard of living.

Questions for Discussion

1. Explain the effects of changes in Population and Demography
2. Define Standard of Living and explain what are the factors that determine standard of living?
3. What are the causes, factors and remedies for low standard of living?



CHAPTER 7

URBANISATION AND MIGRATION

Urbanisation: Urbanisation denotes a diffusion of the influence of urban centres to a rural hinterland. It can also be defined as a process of concentration of population in a particular territory. According to Mitchell urbanisation is a process of becoming urban, moving to cities, changing from agriculture to other pursuits common to cities.

Causes of Urbanisation: Various reasons have led to the growth of cities. They are as follows

- a. **Industrialization:** Industrialization is a major cause of urbanization. It has expanded the employment opportunities. Rural people have migrated to cities on account of better employment opportunities.
- b. **Social factors:** Many social factors such as attraction of cities, better standard of living, better educational facilities, need for status also induce people to migrate to cities.
- c. **Employment opportunities:** In rural sector people have to depend mainly on agriculture for their livelihood. But Indian agriculture is depending on monsoon. In drought situations or natural calamities, rural people have to migrate to cities.
- d. **Modernization:** Urban areas are characterized by sophisticated technology better infrastructure, communication, medical facilities, etc. People feel that they can lead a comfortable life in cities and migrate to cities.
- e. **Rural urban transformation:** It is an interesting aspect that not only cities are growing in number but rural community is adopting urban culture, no longer rural



communities are retaining their unique rural culture. Rural people are following the material culture of urban people.

- f. **Spread of education:** The literacy rate has increased among the rural people. They have become more modernised.
- i. Change in Dress habits.
 - ii. Adoption of modern Technology
 - iii. Enlightenment of women.
 - iv. Modern transport and communication. E.g.: Cell phones have become common even among rural people.
 - v. Active involvement in politics.
 - vi. Growth of infrastructure like Banks, Post office.
 - vii. Awareness among rural consumers.
 - viii. Increasing demand for sophisticated products like cosmetics etc.

It can be noticed that there are significant changes in the life style of village people. Indian villages have adopted urban culture and urban style of living. However, all villages in India are not transformed. Only certain villages situated close to the cities have been transformed.

Effect of Urbanisation: With a high rate of urbanization significant changes have taken place. The effect of urbanisation can be summed up as follows

Positive effects of Urbanisation:

- i. Migration of rural people to urban areas.
- ii. Employment opportunities in urban centres.
- iii. Transport and communication facilities.
- iv. Educational facilities.
- v. Increase in the standard of living.

Urbanization can yield positive effects if it takes place up to a desirable limit.

Adverse effects of Urbanisation: Extensive urbanisation or indiscriminate growth of cities may result in adverse effects. They may be as follows:



- i. **Problem of over population:** Concentration of population is a major problem of cities. It has resulted in accommodation problem, growth of slums etc.
- ii. **Disintegration of Joint family:** Joint family can't be maintained in cities on account of high cost of living: People prefer to live in the nuclear type of families.
- iii. **Cost of living:** High cost of living is a major problem of cities. In Metro cities like Mumbai, Bangalore etc. it is very difficult for lower income groups to maintain a decent standard of living.
- iv. **Increase in Crime rates:** Urban centres are known for high rate of crimes. Theft, Dacoity, Murder, Cheating, Pick pocketing, rape etc. are common in urban centres.
- v. **Impersonal relations:** Urban centres are characterised by highly secondary relations. The concept of neighbourhood, community life are almost absent in cities. Urban life is highly monotonous. This may have an adverse psychological effect on individuals. People are often self-centred and they have no concern for the fellow human beings.
- vi. **Problem of Pollution:** In industrialized cities pollution is a major problems. It may be caused by industries or by excessive movement of vehicles.
- vii. **Stress:** Urban life is characterised by stress which may even strain family relations. In cities employment of women is almost inevitable to meet the increasing cost of living. Changing role of women in the family creates stress in the family which may result in divorce or strained relations.

Thus urbanisation has its own merits and de-merits. Urbanization can't be avoided. But the negative effect of urbanization can be minimised.

Migration

Migration is the movement of people from one place in the world to another for the purpose of taking up permanent or semipermanent residence, usually across a political boundary. An example of "semipermanent residence" would be the seasonal movements of migrant farm laborers. People can either choose to move ("voluntary migration") or be forced to move ("involuntary migration"). Migrations have occurred throughout human history, beginning



with the movements of the first human groups from their origins in East Africa to their current location in the world. Migration occurs at a variety of scales: intercontinental (between continents), intracontinental (between countries on a given continent), and interregional (within countries). One of the most significant migration patterns has been rural to urban migration—the movement of people from the countryside to cities in search of opportunities.

Types of Migration

- a. **Voluntary migration:** People here choose to move from a given location.
- b. **Involuntary migration:** People here are forced to move from a given location.
- c. **Internal Migration:** Moving to a new home within a state, country, or continent.
- d. **External Migration:** Moving to a new home in a different state, country, or continent.
- e. **Emigration:** Leaving one country to move to another (e.g., the Pilgrims emigrated from England).
- f. **Immigration:** Moving into a new country (e.g., the Pilgrims immigrated to America).
- g. **Population Transfer:** When a government forces a large group of people out of a region, usually based on ethnicity or religion. This is also known as an involuntary or forced migration.
- h. **Impelled Migration** (also called "reluctant" or "imposed" migration): Individuals are not forced out of their country, but leave because of unfavorable situations such as warfare, political problems, or religious persecution.
- i. **Step Migration:** A series of shorter, less extreme migrations from a person's place of origin to final destination—such as moving from a farm, to a village, to a town, and finally to a city.
- j. **Chain Migration:** A series of migrations within a family or defined group of people. A chain migration often begins with one family member who sends money to bring other family members to the new location. Chain migration results in migration fields—the clustering of people from a specific region into certain neighborhoods or small towns.
- k. **Return Migration:** The voluntary movements of immigrants back to their place of origin. This is also known as circular migration.



1. **Seasonal Migration:** The process of moving for a period of time in response to labor or climate conditions (e.g., farm workers following crop harvests or working in cities off-season; "snowbirds" moving to the southern and southwestern United States during winter).

People Who Migrate

- a. **Emigrant:** A person who is leaving a country to reside in another.
- b. **Immigrant:** A person who is entering a country from another to take up new residence.
- c. **Refugee:** A person who is residing outside the country of his or her origin due to fear of persecution for reasons of race, religion, nationality, membership in a particular social group, or political opinion.
- d. **Internally Displaced Person (IDP):** A person who is forced to leave his or her home region because of unfavorable conditions (political, social, environmental, etc.) but does not cross any boundaries.

People move for a variety of reasons. They consider the advantages and disadvantages of staying versus moving, as well as factors such as distance, travel costs, travel time, modes of transportation, terrain, and cultural barriers. People migrate due to Push Factors (such as a food shortage, war, flood, etc.) or Pull Factors (such as a nicer climate, better food supply, freedom, etc.). The desirability of a place based on its social, economic, or environmental situation, often used to compare the value of living in different locations. An individual's idea of place utility may or may not reflect the actual conditions of that location. Opportunities nearby are usually considered more attractive than equal or slightly better opportunities farther away, so migrants tend to settle in a location closer to their point of origin if other factors are equal. As distance from a given location increases, understanding of that location decreases. People are more likely to settle in a (closer) place about which they have more knowledge than in a (farther) place about which they know and understand little.

Laws of Migration Geographer E.G. Ravenstein developed a series of migration 'laws' that form the basis for modern migration theory. These principles state:

- a. Most migrants travel only a short distance.



- b. Migrants traveling long distances usually settle in urban areas.
- c. Most migration occurs in steps.
- d. Most migration is rural to urban.
- e. Each migration flow produces a movement in the opposite direction ("counterflow").
- f. Most migrants are adults.
- g. Most international migrants are young males, while more internal migrants are female.

Impacts of Migration:

- a. Human migration affects population patterns and characteristics, social and cultural patterns and processes, economies, and physical environments.
- b. As people move, their cultural traits and ideas diffuse along with them, creating and modifying cultural landscapes.
 - i. **Diffusion:** The process through which certain characteristics (e.g., cultural traits, ideas, disease) spread over space and through time.
 - ii. **Relocation Diffusion:** Ideas, cultural traits, etc. that move with people from one place to another and do not remain in the point of origin.
 - iii. **Expansion Diffusion:** Ideas, cultural traits, etc., that move with people from one place to another but are not lost at the point of origin, such as language.
 - iv. **Cultural markers:** Structures or artifacts (e.g., buildings, spiritual places, architectural styles, signs, etc.) that reflect the cultures and histories of those who constructed or occupy them.

Questions for discussion

- 1. Explain the causes and effects of Urbanisation.
 - 2. What do you mean by migration? Explain its types and impact.



UNIT IV
CHAPTER – 8
STATE REGULATIONS ON BUSINESS

India is a union of states, where the legislations are enacted by State Assembly or Parliament. India is often criticized for complex regulations, it is important to keep in mind that that in some cases, these laws are simpler than those of the U.S. Most regulations are consistent across the country, and attorneys in India can practice in any state. Filing lawsuits is seldom productive in most commercial disputes since court cases can drag on for decades and collection can take even longer. For large deals, binding third-country arbitration can be the best way to resolve disputes.

Many business laws in India precede the country's independence in 1947.

- a. The **Indian Contract Act of 1872** is still in force, although specific contracts such as partnerships and the sale of goods are now covered by newer laws.
- b. The **Partnership Act of 1932** covers partnership firms in India.
- c. Business laws regulating chartered accountants and cost accountants were passed in 1949 and 1959, respectively.
- d. The **Banking Regulation Act of 1949** continues to regulate private banking companies and manage banks in India. In 2012, it was amended by the Banking Law



(Amendments) Act. Under these amendments, the Reserve Bank of India (RBI) was given power to restrict voting rights and shares acquisition in a bank. The RBI established the Depositor Education and Awareness Fund. Banks are now able to issue both equity and preference shares under RBI guidelines.

Following India's economic development in the 21st century, the Ministry of Corporate Affairs passed

- a. the **Competition Act of 2002**
- b. the **Limited Liability Act** in 2008.

These promote sustainable competition in markets, prohibit anti-competitive business practices, and protect consumer interests while ensuring free trade.

The Parliament of India passes and amends regulations for both businesses and investors. In addition to provisions from the Companies Act of 1956, the **Companies Act of 2013** features provisions regarding mergers and acquisitions, board room decision-making, related party transactions, corporate social responsibility, and shareholding. The act was further amended through the **Companies Act of 2015** which eliminated the procedural common seal, declarations for commencement of businesses, and minimum paid-up capital requirements. The amendment also relaxed governing-related party transactions while limiting access to strategic corporate resolutions in India.

As a member of the International Labour Organization, India offers protections for its employees through certain legislation. These include the

- a. Payment of Wages Act of 1936
- b. the Industrial Employment Act of 1946
- c. the Industrial Disputes Act of 1947
- d. the Payment of Bonus Act of 1965
- e. the 1972 Payment of Gratuity Act.

Protections include annual bonuses of 8.33% and separation fees of about 15 days per year of employment.



Other labor laws such as

- a. the Building and Other Construction Workers Acts of 1996
- b. the Workmen's Compensation Act of 1923 (amended in 2000) are in effect.
- c. Passed in 1926, the **Trade Unions Act** deals with the registration, rights, liabilities, and responsibilities of trade unions.
- d. The **Industrial Disputes Act of 1946** regulates trade unions and matters between industrial employers and employees.

Business laws in India include consumer protection.

- a. The **Consumer Protection Act, 1986** mandates Consumer Dispute Redressal Forums at local and national levels.
- b. Older laws, such as the **Standards of Weights & Measures Act of 1956**, ensure fair competition in the market and free flow of correct information from providers of goods and services to consumers.
- c. Due to the growth of trade, the Indian government passed the **Foreign Trade (Development and Regulation) Act of 1992** to facilitate imports and augment exports.
- d. The latest EXIM Policy, known as the Foreign Trade Policy, was issued for April 2015 to March 2020.
- e. The **Service Exports from India Scheme (SEIS)** replaced the Served from India Scheme. The SEIS extends the duty-exempted scrip to Indian service providers and provides notified services in a specified mode outside the country. Under the **Export Promotion Capital Goods Scheme**, the export obligation requires six times the duty saved on imported capital goods; in the case of local sourcing of capital goods, the export obligation is reduced by 25%.
- f. Beyond goods and services, the **Foreign Exchange Management Act of 1999** regulates foreign exchange transactions including investments abroad.

As a founding member of the World Trade Organization in 1995, India has updated business laws regarding copyrights, patents, and trademarks to meet the Agreement on Trade Related Aspects of Intellectual Property Rights. Indian companies and the federal government honour global IP rights. However, because music copyrights are different in India, both Indian and



Western IP owners in the entertainment industry have suffered due to digital piracy. Even so, there are few IP-related disputes outside of several celebrated pharmaceutical industry cases.

E-commerce and online expansion of companies prompted India to create regulations to cover cyber law and security compliances, such as

- a. the techno legal regulatory provisions in the Companies Act of 2013.
- b. The **Information Technology Act of 2000** is the primary law for e-commerce regulation in India.
- c. In 2008, the IT Act was amended to provide explicit legal recognition of electronic transactions

Industrial Licensing Policy: Industrial Policy is a formal declaration by the Government whereby it outlines its general policies for industries. Any industrial policy has broadly two parts. First part generally deals with the ideology of the current political dispensation, while other one provides a framework of certain rules / principles. The main objective of any industrial policy is

- a. to augment the industrial production and thereby enhance the industrial growth which leads to economic growth by optimum utilization of resources.
- b. modernization; balanced industrial development; balanced regional development (by providing concessions for industrial development in backward areas); balanced development of basic and consumer industry; coordinated development of large as well as small, medium and cottage enterprises; determination of area of operation under private and public sector; enhance cordial relations between workers and management and proper utilization of the domestic / foreign capital.

Need, Objectives and Importance of Industrial Policy: The need, objectives and importance of an industrial policy can be explained through following points

- a. **Deployment of Natural Resources:** The industrial policy helps in full deployment of natural resources of the country. It helps in identifying, collecting and using resources properly. It facilitates increase in national income of the country.



- b. **To Augment Industrial Production:** The main objective of the industrial policy is to augment industrial production of the country. It provides an impetus to rapid development of industries and industrial growth.
- c. **Modernisation:** The industrial policy encourages modernisation for increasing industrial output and productivity. It envisages the use of modern and latest production techniques in industrial sector. It facilitates maximum output at minimum cost of production.
- d. **Balanced Industrial Development:** The industrial policy envisages balanced industrial development of the country. It also facilitates balanced development of various sectors of the economy.
- e. **Balanced Regional Development:** The industrial policy helps in balanced regional development of the country. The industrial policy may contain provisions regarding providing facilities or concessions for rapid development of industrially backward areas/regions of the country.
- f. **Coordination between Basic and Consumer Industries:** The balanced development of basic and consumer industries is essential for economic growth. The industrial policy encourages development of basic and key industries on the one hand, while attention is paid to the development of consumer industries also on the other. Thus, by balanced and coordinated development of both type of industries it provides a pace to economic growth.
- g. **Coordination between Small Scale and Large Scale Industries:** The industrial policy plays a vital role in coordinated development of small scale or cottage industries and large scale industries. These industries can be made mutually helpful to each other through the provisions of industrial policy.
- h. **Area Determination:** The industrial policy determines the area of operation under public and private sector. Proper direction can be shown to private sector through the country's industrial policy.
- i. **Cordial Industrial Relations:** A comprehensive industrial policy is needed to establish cordial relations between workers and management. Cordial industrial relations are essential for rapid and sustainable industrialisation.
- j. **Proper Utilisation of Foreign Assistance/investment:** An appropriate industrial policy envisages to attract foreign capital and entrepreneurs. It helps rapid industrial development of the country; A well thought of industrial policy checks the demerits



of “foreign assistance. The foreign aid can be used in the national interest if an appropriate industrial policy is pursued by the country.

Industrial Licensing Policy in India:

- a. Industrial Licensing was also abolished for all except short list of 18 industries in New Industrial Policy 1991.
- b. This number was further pruned to six industries. Currently (2015), only five industries are under compulsory licensing mainly on account of environmental, safety and strategic considerations. They are
 - i. Distillation and brewing of alcoholic drinks
 - ii. Cigars and cigarettes of tobacco and manufactured tobacco substitutes.
 - iii. Electronic Aerospace and defence equipment
 - iv. all types. Industrial explosives including detonating fuses, safety fuses, gun powder, nitrocellulose and matches.
 - v. Specified Hazardous chemicals i.e. (i) Hydrocyanic acid and its derivatives, (ii) Phosgene and its derivatives and (iii) Isocyanates & diisocyanates of hydrocarbon, not elsewhere specified(example Methyl isocyanate)

Regarding Alcoholic products, the production of rectified spirit exclusively for industrial use falls under the Centre’s purview while in the case of potable alcohol, states have last word. So, DIPP is not the licensing authority in case of potable alcohol.

Questions for Discussion

1. Explain state regulation and business.
2. Explain Industrial Policy in detail.



CHAPTER – 9

TECHNOLOGY AND BUSINESS

Technology is the collection of techniques, skills, methods and processes used in the production of goods or services or in the accomplishment of objectives, such as scientific investigation. It can be the knowledge of techniques, processes, and the like, or it can be embedded in machines, computers, devices, and factories, which can be operated by individuals without detailed knowledge of the workings of such things.

Characteristics

- i. Today we live in a technological ‘age’ and global economy where competition has become knowledge-based.
- ii. In modern theories of growth and development technological innovation has taken the centre stage.
- iii. Technology can be viewed as an activity that forms or changes culture.
- iv. It is developed continuously.

Importance: Technology is very much important as it has simplified life in several ways such as



- i. Providing easy access to information
- ii. Improved usage of advanced communication technology tools
- iii. Convenience of housing and shopping
- iv. It has improved the convenience of Traveling:
- v. Improved housing and lifestyle:
- vi. It has enhanced convenience in Education:
- vii. Changed the health industry
- viii. Improved entertainment and
- ix. Improved efficiency and productivity.
- x. Technology has encouraged innovation and creativity in society and enhanced convenience in doing business.

Disadvantages of Technology:

- a. Increased loneliness
- b. Job Loss:
- c. Competency
- d. World destruction weapons:

Technology Development: Technological development relates to really anything in regards to inventions or innovations. Development is essentially the process that takes a product or idea from a hypothesis to a usable product. More often than not, development is usually restarted after a product is finished, which is known as a prototype, which means it was a testing to determine if the technology was ready for regular usage. The Technology development takes place by either of the ways

1. Indigenous Technology
 2. Technology transfer
1. **Indigenous technology (IT):** Indigenous technology refers to unique, traditional, local knowledge existing within and developed around specific conditions of women and men indigenous to a particular geographic area. Indigenous Technology is the information base for a society, which facilitates communication and decision making. It is denoted mainly as a tacit type of knowledge that has evolved within the local (grassroots) community and has been passed on from one generation to another,



encompasses not only local or indigenous knowledge, but also scientific and other knowledge gained from outsiders.

Features of Indigenous Technology: The basic component of any country is knowledge system is its indigenous technical knowledge.

- i. It encompasses the skills, experiences and insights of people, applied to maintain or improve their livelihood.
- ii. Indigenous Technology is developed and adapted continuously to gradually changing environments and passed from generation to generation and closely interwoven with peoples cultural values.
- iii. Indigenous technology is also the social capital of the poor, their main asset to invest in the struggle for survival, to produce food, to provide for shelter or to achieve control of their own lives. Indigenous Knowledge is the basis for self-sufficiency and self-determination at least for two reasons:
 - (a) People are familiar with indigenous practices and technologies. They can understand, handle, and maintain them better than introduced western practices and technologies.
 - (b) Indigenous Knowledge draws on local resources. People are less dependent on outside supplies, which can be costly, scarce and unavailable regularly.

2. **Technology Transfer:** Technology Transfer is the intersection between business, science, engineering, law and government. It is a process by which technology or knowledge developed in one place or for one purpose is applied and exploited in another place for some other purpose. The transferee's benefits from Technology Transfer are quite obvious, as it is perceived as a means for them to develop their economies as well as quality of life. The transferor is often viewed as the giver of benefits. Such a perspective would be detrimental to the effective implementation of technology transfer

Import of Technology: It is one type of technology transfer where movement of innovation, knowledge and techniques from one country to another through assistance, investing,



licensing, trade and training. The different forms by which the technology is imported are as follows

- a. **Internalised form:** In this form the control resides with the owner of the technology, holding the majority or full equity ownership.
- b. **Externalised Form:** It refers to joint ventures with local control, licensing, strategic alliances and international subcontracting.
 - i. **Licensing:** It is provided for the use of technology to the user under which only a license holder can use the technology. It is a common practice followed in importing of technology.
 - ii. **Ownership transfer:** Here the owner of the new technology transfer the right to somebody or some organisation their owning rights. It is generally termed as uncommon practice; generally not recommended due to Intellectual Property risk.
 - iii. **Wholly foreign-owned enterprise:** Were the transferring company starts a separate entity/subsidiary to the importing country to develop and sell the technology.
 - iv. **Management Contract:** Here the is imported/transferred under certain terms and conditions or by establishing project for host and training their personnel to operate it and transfer the control to hosts.
 - v. **Contract Manufacturing:** It refers to transfer of technology to the user and get te product manufactured from user themselves.
 - vi. **Joint Venture:** Technology is transferred to joint venture partner and technology is provided to host nation through a partner from host nation.

Impact of Technological changes in Business: Technological change will have an impact on all organizations.

- a. There will be a need for new types of managerial, diplomatic, and social skills and a associated need for a new type of decision making process that will not be accommodated by existing organizational structures.
- b. Technological change can positively affect individual values leading to increased time for consideration of both the heart and the brain in decision making. This may lead to



greater moral sensitivity and more tolerance and compassion for others, all coupled with a more rational approach to decision making.

- c. There will be increased responsibility on management for organization outcomes leading to added emphasis on planning, decision making, control, and coordination.
- d. The company will often have to rely on computer-based management science techniques which demand a higher intellectual capability of managers.
- e. Each of these changes will provoke responses from the organization in its structure and relationships with employees and customers.
- f. A possible effect of technological change may be increased loyalty to one's profession rather than to one's organization. The effect of technological change on the manager's quest for self-actualization is still debatable.
- g. The change will produce strain on managers and other individuals, potentially affecting morale, productivity, and output. Three particular aspects of the organizational environment will be affected by technological change:
 - i. The amount of market competition and uncertainty will increase
 - ii. There will be requirements for more diversity and higher quality in the organization's products or services; and
 - iii. External politics and legislative reform will increase in complexity.

Technological change will force changes in basic managerial functions. The net result of technological change for all organizations is a greater requirement for strategic planning. Through this process we can anticipate changes, including those brought about by technology, evaluate the various alternatives available to us to cope with those changes, and be prepared for the future as it arrives.

Questions for Discussions

1. Explain Technology, its advantages and disadvantages
2. Explain technology transfer, its needs and types.



UNIT V
CHAPTER -10
ECONOMIC SYSTEM AND BUSINESS

An economic system is the system of production, distribution and consumption of goods and services of an economy. Alternatively, it is the set of principles and techniques by which problems of economics are addressed, such as the economic problem of scarcity through allocation of finite productive resources. The economic system is composed of people and institutions, including their relationships to productive resources, such as through the convention of property. Contemporary economic systems include capitalist systems, socialist systems, and mixed economies. "Economic systems" is the economics category that includes the study of respective systems.



Features of Economic systems

Economic systems are the means by which countries and governments distribute resources and trade goods and services. They are used to control the five factors of production, including: labor, capital, entrepreneurs, physical resources and information resources. In everyday terms, these production factors involve the employees and money a company has at its disposal, as well as access to **entrepreneurs**, the people who want to run companies or start their own businesses. The physical materials and resources needed to run a business, along with the data and knowledge companies use to be successful, are also factors in production.

Need for an Economic systems

The fundamental economic problem in any society is to provide a set of rules for allocating resources and consumption among individuals who can't satisfy their wants, given limited resources. The rules that each economic system provides function within a framework of formal institutions (e.g., laws) and informal institutions (e.g., customs). In every nation irrespective to the form of government, the type of economic system, controls the government exercise, or how rich or poor the country is, the following basic economic questions must be answered. They are:

- a. What and how much will be produced?
- b. How will it be produced?
- c. For whom will it be produced?

The mechanism to answer all these basic questions gives an economic system.

Types of Economic System

- a. Capitalism
- b. Socialism
- c. Communism

- a. **Capitalist economic system:** Capitalist economic system is a system in which individuals own all resources, both human and non-human. Governments intervene only minimally in the operation of markets, primarily to protect the private-property



rights of individuals. Free markets in which suppliers and demanders can enter and exit the market at their own discretion are fundamental to the capitalist economic system.

In a capitalist system, individuals own resources, either through inheritance or through industry. The individual receives compensation for the use of resources by others. This, combined with inherited wealth of the person, determines an individual's spending power. The accumulated spending power and the willingness of individuals to allocate resources to consumption determine demand. The availability and costs of resources, together with the potential for profits of firms, determine supply. In a market system the demand of consumers combined with the supply of producers determines what and how much will be produced.

Because of the economic competitiveness of the market system, the lowest-cost production method will be used. If anything other than the lowest-cost production method was being used, a competing firm would have an incentive to enter production to earn a greater profit and could afford to sell at a lower price, thus driving the original firm out of production. Consumers could then purchase more of the product at a lower price, allowing their limited resources to purchase more.

Production will be allocated to those with available resources and a willingness to purchase the output of production. These purchases then become information for suppliers in determining what and how much to produce in the future.

- b. **Socialism:** Socialist economic system is the one in which individuals own their own human capital and the government owns most other, non-human resources that is, most of the major factors of production are owned by the state. Land, factories, and major machinery are publicly owned.

A socialist system is a form of command economy in which prices and production are set by the state. Movement of resources, including the movement of labor, is strictly controlled. Resources can only move at the direction of the centralized planning



authority. Economic decisions about what and how much, how, and for whom are all made by the state through its central planning agencies.

In theory, socialism is an economic system based upon the individual's good will toward others, rather than a function of his or her own self-interest. Socialism attempts to influence individuals to take other people's needs into account and to adjust their own needs in accordance with what's available.

In socialist economies, individuals are urged to consider the well-being of others; if individuals don't behave in a socially desirable manner, the government will intervene. In practice, socialism has become an economic system based on government ownership of the means of production, with economic activity governed by central planning. The economies of Sweden and France are examples of a socialist economic system.

- c. **Communism:** Communist economic system is the one in which, all resources, both human and non-human, are owned by the state. The government takes on a central planning role directing both production and consumption in a socially desirable manner.

Central planners forecast a socially beneficial future and determine the production needed to obtain that outcome. The central planners make all decisions, guided by what they believe to be good for the country. The central planners also allocate the production to consumers based on their assessment of the individual's need. Basic human needs and wants would be met according to the Marxist principle, "From each according to his ability to produce, to each according to his need."

The economies of China, the former Soviet Union, and the former East Germany are examples of communist economies.

Countries have scarce resources. The economic systems of countries are designed to allocate those resources, through a production system, to provide output for their citizens. Pure capitalist economies are market economies in which the role of government is to ensure that



the ownership of the resources used in production are privately held. Socialist economies are primarily command economies where most non-human resources are owned by the state but human capital is owned by the individual. Communist economies are also command economies but all resources, both human and non-human, are owned by the state. In practice, all economies are actually mixed economies, incorporating some facets of both market and command economies. The relative importance of the particular economic system in the country is the determinant of the type of economic system that it is generally considered to be.

Impact of changes in the Economic Activity: Economic activity changes due to different reasons. Rate of growth at which economic activity changes is called economic growth.

- a. At the time of slow economic growth or recession, people loose their jobs, unemployment level goes up, and income level decreases. As a result, demand for goods and services falls and sales slowdown. Businesses have to consider accommodating to such changes in demand. In order to adjust to a falling demand, a company tries to cut prices to increase sales while suffering lower revenue and decreased profit margin .Thus, the firm might decide to cut back on production and/or reduce number of employees
- b. At the time of economic growth demand and sales increase, unemployment falls, and production goes up as businesses try to cope with the increased demand, Businesses try to accommodate these changes. In order to keep up with the growing demand and increase in production level, firms might reconsider changes in the use of production equipment, changes in equipment or production facilities, amount of recourses needed All of the above might bring production costs up. This, in turn, brings up prices for goods and services. To control growing cost of production, businesses might decide to cut waste, to change the way people work, to use new technology, or to reconsider number of staff they employ.
- c. Inflation is a rise in a general price level over a period of time. For example, prices for goods and services, prices for raw materials, and prices for individual as well as firms insurance go up. It becomes difficult for businesses to plan ahead since inflation affects not only the amount received from for sales but also the prices of input.



Businesses might start paying higher salaries to their employee to keep up with inflation. In addition, prices of raw material go up.

- d. As prices of input increase, a cost of production goes up causing an increase in prices. If wages do not rise by the same level as inflation, spending power is affected, savings level can also fall. This leads to a decrease in income and decrease in demand and sales follow. Again, firms take action in order to accommodate these changes.
- e. Human Resources (HR) and Marketing areas of business are affected by changes in economic activity and inflation. Human Resources functional area has to consider rising or falling unemployment that result from changes in economic activity or inflation. When unemployment rate is rising, the HR department must deal with issues associated with laying off firm's employees.
- f. During increase in economic growth or inflation, when the level of unemployment is low and firms are in need of more workers, it becomes difficult to recruit necessary employees. The department has to make additional efforts in recruitment in order to get labour. Human Resources is also responsible for retention of company's labour.
- g. Marketing department is responsible for market research, market analysis, market strategy, and sales, it pays particular attention to the economic situation to see how current or future demand, prices and sales are going to be affected. This helps to determine actions a firm should take or plan on taking in order to succeed or, at least, to stay in business. On slow economic growth or inflation when demand and sales are falling, the department will try to cut production and selling costs. It may reconsider and adjust projected sales and prices as well as company's marketing strategy.
- h. In the time of economic growth when demand and sales increase, unemployment falls, and production goes up, Marketing must consider how to accommodate these changes and adjust production and sales strategy as well as prices accordingly.
- i. In addition, knowledge of current or anticipated economic situation is essential when planning for a new product. Based on the discovery and recommendations of the Marketing department, other departments can properly plan or adjust their work.

All functional areas of business including Marketing and Human Resources are affected by changes in economic activity, changes in inflation rate, and other possible changes in economics. These departments as well as entire company should recognize the impact of



current and possible future economic situation on business, and take actions in order to accommodate these changes.

Questions for Discussion

1. Define Economic System. Explain its need and types.
2. What is the impact of the change in economic system?

CHAPTER – 11

PUBLIC AND PRIVATE SECTOR AND BUSINESS



Public Sector: The sector, which is engaged in the activities of providing government goods and services to the general public. The enterprises, agencies, and bodies are fully owned, controlled and run by the Government whether it is central government, state government or a local government.

Objectives: The public sector aims at achieving the following objectives:

- a. To promote rapid economic development through creation and expansion of infrastructure
- b. To generate financial resources for development
- c. To promote redistribution of income and wealth
- d. To create employment opportunities
- e. To promote balanced regional growth
- f. To encourage the development of small-scale and ancillary industries, and
- g. To promote exports on the one side and import substitution, on the other.

There are two types of public sector organizations

- a. the Government fully finances them through the revenues they raise by collecting taxes, duties, fees, etc.
- b. the government holds more than 51% of the total share capital of the company which comes under various ministries.

These enterprises are established with service motive. It is the largest sector, which works for the upliftment of the people by providing certain services to the people, few are as follows

- a. Generation of employment opportunities
- b. Providing postal services
- c. Providing education and health facilities at low cost
- d. Providing security
- e. Facilitating the mobility through railway service

Need for Public Sector: Public Sector is needed for the following reasons



- a. **Efficient use of resources:** The resources are utilized efficiently to produce socially useful goods without taking the profit margin into account. Production is increased by avoiding wastes of competition.
- b. **Economic Stability:** Economy is free from business fluctuations. Government plans well and everything is well coordinated to avoid over-production or unemployment. There is stability because the production and consumption of goods and services are well regulated.
- c. **Maximization of Social Welfare:** All citizens work for the welfare of the State. Everybody receives his or her remuneration. The State concentrates on the production of basic necessities instead of luxury goods. The State provides free education, cheap and congenial housing, public health amenities and social security for the people.
- d. **Absence of Monopoly:** The elements of corporation and monopoly are eliminated since there is absence of private ownership. The state is a monopoly but produces quality goods at reasonable price.
- e. **Basic needs are met:** In socialist economies, basic human needs like water, education, health, social security, etc, are provided. Human development is more in socialist countries.
- f. **No extreme inequality:** as social welfare is the ultimate goal, there is any concentration of wealth. Extreme inequality is prevented in socialist system.

Role of Public Sector: The public sector has been playing a vital role in the economic development of the country. Public sector is considered a powerful engine of economic development and an important instrument of self-reliance. The main contributions of public enterprises to the country's economy may be described as follows

- a. **Filling the Gaps in Capital Goods:** At the time of independence, there existed serious gaps in the industrial structure of the country, particularly in the fields of heavy industries. Public sector has helped to fill up these gaps. The basic infrastructure required for rapid industrialisation has been built up, through the production of strategic capital goods. In this way the public sector has considerably widened the industrial base of the country.



- b. **Employment:** Public sector has created millions of jobs to tackle the unemployment. Public sector accounts for about two-thirds of the total employment in the organised industrial sector. By taking over many sick units, it has protected the employment of millions. Public sector has also contributed a lot towards the improvement of working and living conditions of workers by serving as a model employer.
- c. **Balanced Regional Development:** Public sector undertakings have located their plants in backward and untrodden parts of the county which lacked basic industrial and civic facilities. Public enterprises have developed these facilities thereby bringing about complete transformation in the socio-economic life of the people in these regions.
- d. **Contribution to Public Exchequer:** Apart from generation of internal resources and payment of dividend, public enterprises have been making substantial contribution to the Government exchequer through payment of corporate taxes, excise duty, custom duty etc.
- e. **Export Promotion and Foreign Exchange Earnings:** Some public enterprises have done much to promote India's export. They have done very well in export promotion.
- f. **Import Substitution:** Some public sector enterprises were started specifically to produce goods which were formerly imported and thus to save foreign exchange.
- g. **Research and Development:** As most of the public enterprises are engaged in high technology and heavy industries, they have undertaken research and development programmes. This has laid strong and wide base for self-reliance in the field of technical know-how, maintenance and repair of sophisticated industrial plants, machinery and equipment in the country and have reduced dependence on foreign knowhow.

In addition to the above, the public sector has played an important role in the achievement of constitutional goals like reducing concentration of economic power in private hands, increasing public control over the national economy, creating a socialistic pattern of society, etc.

Causes for The Expansion of Public Sector Enterprises in India: At the time of independence, India was backward and underdeveloped with weak industrial base, high rate of unemployment, low level of savings and investment and near absence of infrastructural



facilities. Indian economy needed a big push. This push could not come from the private sector because of the lack of funds and their inability to take risk with large long-gestation investments. As such, government intervention through public sector was necessary.

- a. The public sector was essential to realize the target of high growth rate deliberately fixed by the government.
- b. In the Second Five Year Plan the emphasis was shifted to industries and mining, mainly basic capital goods industries to be developed under the aegis of the public sector. Thus more resources for industrialization were funnelled through the public sector.
- c. Public enterprises were set up in those regions which were underdeveloped and where local resources were not adequate. These were meant to help industrialise the regions surrounding the projects.
- d. Profits of public sector industries can be directly used for capital formation which is necessary for the rapid development of the country. The surplus of government enterprises could be re-invested in the same industries or used for the establishment and expansion of other industries.
- e. The socialistic pattern of society envisaged in the Constitution calls for expansion of public sector. The public enterprises were used as major instruments for the reduction of inequalities of income and to bring about a more equitable distribution of income in several ways.

Limitations: Despite their impressive role, Public enterprises in India suffer from several problems and shortcomings. Some of them are

- a. Poor Project Planning
- b. Over-capitalization
- c. Excessive Overheads
- d. Overstaffing
- e. Under-utilisation of Capacity
- f. Lack of a Proper Price Policy
- g. Inefficient Management



Private Sector: The segment of a national economy that is owned, controlled and managed by private individuals or enterprises is known as Private Sector. The private sector companies are divided on the basis of sizes like small & medium enterprises and large enterprises which are either privately or publicly traded organizations. They can be created in two ways, i.e. either by the formation of a new enterprise or by the privatization of any Public Sector Enterprise.

Business entities of the private sector are generally established with the sole objective of making profit and building brand reputation. They provide quality services to the community to win the trust and goodwill from people to survive in the long run and compete with the enemies. These enterprises also have to follow the government law and order. It is the largest sector in terms of employee. In private sector performance is the basic criterion for job stability. Few of the major services provided by the Private sector are as under

- a. Education
- b. Telecommunication services
- c. IT services
- d. Courier Services
- e. Infrastructure development
- f. Retail
- g. Insurance
- h. Pharmaceutical
- i. Agriculture
- j. Heavy Industries

Importance of private sector in Indian economy

- a. The opening up of Indian economy has led to free inflow of foreign direct investment (FDI) along with modern cutting edge technology, which increased the importance of private sector in Indian economy considerably.
- b. Post 1990 era witnessed total investment in favour of Indian private sector. The investment quantum grew from 56% in the first half of 1990 to 71 % in the second half of 1990. This trend of investment continued for over a considerable period of



time. These investments were especially made in sector like financial services, transport and social services.

- c. Indian market changed as soon as the markets were opened for investments. This saw the rise of the Indian private sector companies, which prioritized customer's need and speedy service.
- d. This further fuelled competition amongst same industry players and even in government organizations.
- e. The importance of private sector in Indian economy has been very commendable in generating employment and thus eliminating poverty.
- f. Further, it also effected the following -
 - i. Increased quality of life
 - ii. Increased access to essential items
 - iii. Increased production opportunities
 - iv. Lowered prices of essential items
 - v. Increased value of human capital
 - vi. Improved social life of the middle class Indian
 - vii. Decreased the percentage of people living below the poverty line in India
 - viii. Changed the age old perception of poor agriculture based country to a rising manufacturing based country
 - ix. Effected increased research and development activity and spending
 - x. Effected better higher education facilities especially in technical fields
 - xi. Ensured fair competition amongst market players
 - xii. Dissolved the concept of monopoly and thus neutralized market manipulation practices

Major differences between public sector and private sector:

- a. Public Sector is a part of the country's economy where the control and maintenance are in the hands of Government. Private Sector is owned and managed by the private individuals and corporations.
- b. The aim of the public sector is to serve people, but private sector enterprises are established with the profit motive.



- c. In the public sector, the government has full control over the organizations. Conversely, Private Sector companies enjoy less government interference.
- d. The employees of the public sector have the security of the job along with that they are given the benefits of allowances, perquisites, and retirement like gratuity, pension, superannuation fund, etc. which are absent in the case of the private sector.
- e. In the private sector working environment is quite competitive which is missing in the public sector because they are not established to meet commercial objectives.
- f. In general Public Sector uses Seniority for promoting employees, however, merit cum seniority is also taken as a base for promoting employees. Unlike Private Sector, where performance is everything, and so merit is considered as a parameter to promote them
- g. Private Sector is progressing faster because it promotes quality, not quantity; it encourages talent. Public Sector is full of reservations like reservations for minority section, females, a person with a disability and much more, here nobody sees talent, it is completely ignored and because of this, competent youths remain unemployed.
- h. Public sector enterprises give so many facilities to their employees, which makes them satisfied that their job is secured, due to which, all the people are running after it like it is a marathon. However in the Private Sector, the job is never secured, even if you give years to it, you can be fired anytime just because of a single mistake.
- i. In the private sector, where performance is king, the workload is much, but it keeps a person active, this is missing in the public sector due to which the work sometimes becomes monotonous which creates boredom.
- j. Private Sector is corruption free. In Public Sector, people have to pay lots of money to the government officers even for a simple work, for no reason.

It is an unending debate, both are good at their places, if the drawbacks are removed, they will surely prove good for the economy. At the time of independence, India was backward and underdeveloped – basically an agrarian economy with weak industrial base, high rate of unemployment, low level of savings and investment and near absence of infrastructural facilities. Indian economy needed a big push. This push could not come from the private sector because of the lack of funds and their inability to take risk with large long-gestation investments. As such, government intervention through public sector was necessary for self-



reliant economic growth, to diversify the economy and to overcome economic and social backwardness.

Limitations of the Private Sector:

- a. In many cases the private sector could not take initiatives because of the lack of funds and their inability to take risk with large long-gestation investments.
- b. In a number of cases, the government was forced to take over a private sector industry or industrial units either in the interest of workers or to prevent excessive exploitation of consumers.
- c. Many times the private sector did not function as it should and did not carry out its social responsibilities. Accordingly, the government was forced to take over or nationalize the private sector units.

Question for discussion

1. Define Public Sector. Explain its need and types.
2. Explain the role of public sector in the development of the economy.
3. Define Private sector. Explain the role of private sector in Indian economy.
4. Explain the major differences between public sector and private sector.

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