

Business Environment Material

(BBM II Semester)

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Unit – I

1. What do you mean by Business Environment? Define it?

Introduction:

No business enterprise functions in a vacuum. It is a product of business ecology i.e., business environment. Nature, location, product/service, size, volume price, policies and decisions of the business enterprise are influenced by the business environment. A business unit's decisions and performance are influenced by a wide variety of factors, which are called Business Environment.

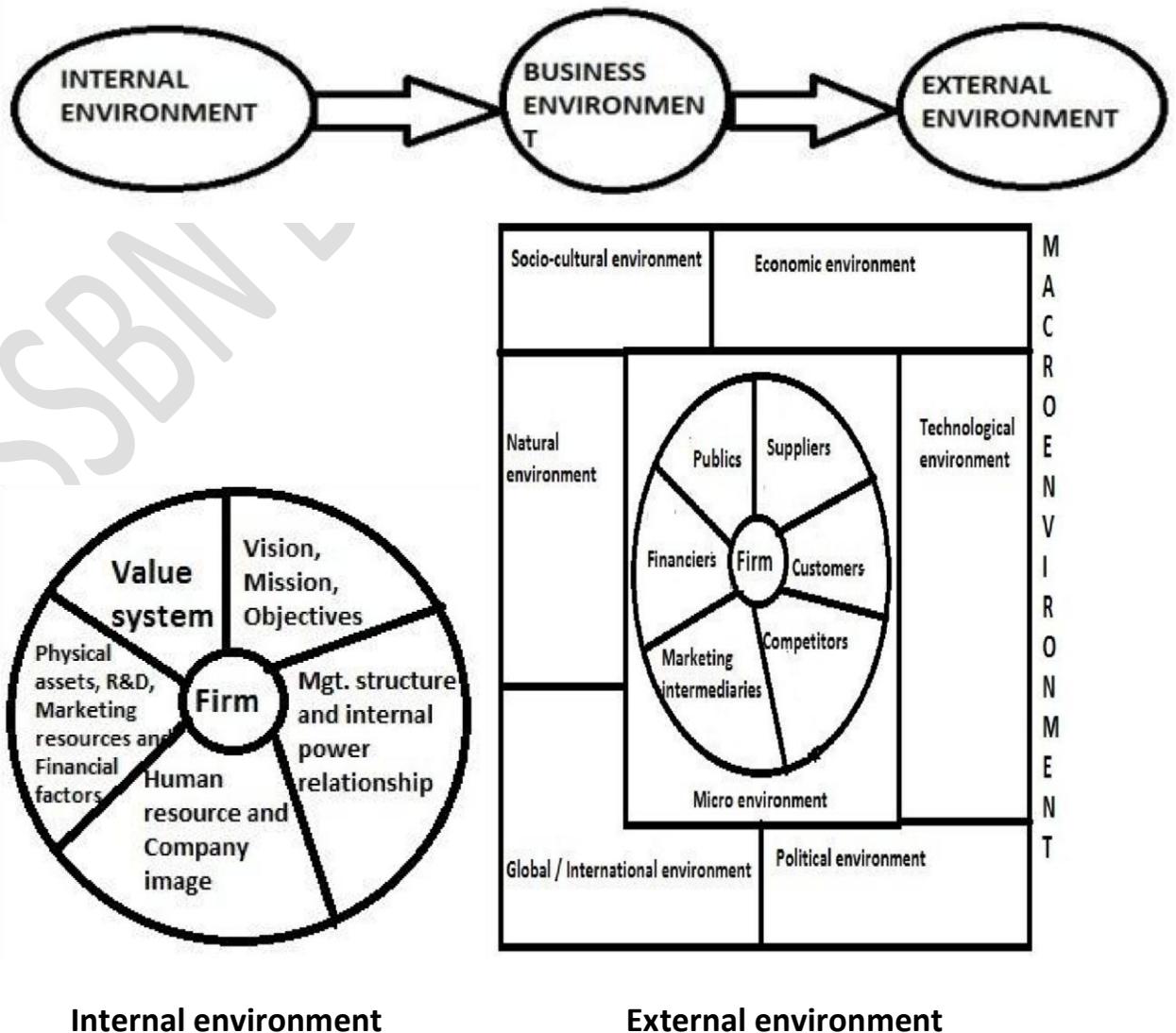
Business Environment refers to all the external forces which have a bearing on the functioning of business. The literary meaning of Business Environment means the surroundings, external objects influences etc., Business Environment is the aggregate of all conditions, events and influences that surrounds and affects a business unit. Business Environment poses certain threats to a business unit. Business Environment gives immense opportunities for market exploitation.

Definition:

According to **William F. Gluck and Lawrence R. Jauch**, “The Business Environment includes factors outside the firm, which can lead to opportunities for or threats to the firms. Although there are many factors, the most important of the factors are socio-economic, technological, suppliers, competitors and government.”

According to **Barry M. Richman and Melvyn Copen**, “Environmental factors or constraints are largely, if not totally, external and beyond the control of individual industrial enterprise and their managements. These are essentially the “givens” within which the firms and their managements must operate in a specific country and they vary, often greatly from country – to – country.”

Broad sense of B.E.: some experts have used the term BE in a broad-sense. These experts talk about internal and external environment can be subdivided into micro and macro environment. The following figure explains the various environment to business environment.



Internal environment

External environment

2. Define business environment? What are the nature and characteristic features of business environment?

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Nature and characteristics of B.E.:

a. Symbolic relationship between B.E. factors and business decisions:

Business decisions and performance are influenced by the B.E. factors. Eg: what business to do; what are the targeted customer segments, what strategies to be adopted, where-when and how to do business, whether to continue or expand and if yes, where and how to expand and so on are influenced by a number of B.E. factors.

b. B.E. factors are dynamic:

The internal, micro and macro environmental factors are ever-changing. As years roll by, there will be a marked change in them. So, the business enterprise should adapt itself to these dynamic factors.

c. No single-firm cannot change the B.E.:

A business firm is not in a position to change the environment. It should operate within the "given" factors of B.E. But, along with other firms, a single firm may be in a position to alter and mould environment in its favour.

d. B.E. comprises both external as well as the internal factors:

The internal business environment factors include the value system; vision-mission objectives; management structure; internal power relationship; human resource; company image; physical assets; research and development; marketing resources and financial factors. These factors are controllable by the management.

The external factors of B.E. are micro and macro. The micro B.E. are micro suppliers; customers; competitors; marketing intermediaries; financiers; and publics. The macro B.E. factors are STEPIN.-socio-cultural; technological; economic; political; international/global and natural environment. These factors are uncontrollable by a single firm.

e. B.E. establishes FIRM-ENVIRONMENT:

Formulation of strategy is establishing the firm-environment fit. The mission / objectives/goals should be based on an assessment of the external environment and internal environment. A SWOT analysis is made. External environment has 2 components

viz., business opportunities and threats to business. Internal environment has 2 components viz., strengths and weaknesses of the organisation.

f. B.E. varies from country-to-country:

This is because countries may differ in their economic, social, political factors.

- g.** Different level of influences is exerted by various factors of the business environment
- h.** Within the same country, different regions may differ in respect of demographic, cultural, local-political situations, law and order. So, B.E. differs.
- i.** As economic advances are made, social values change, political ideologies change; so also B.E. changes.
- j.** B.E. provides opportunities and challenges, accelerator and brakes, leverages and limitations.
- k.** B.E. is supportive for some of the business units and restrictive for some other business units.
- l.** B.E. is dynamic and complex on national planes.
- m.** B.E. is influenced by TRANSNATIONAL factors like International investment, World Bank, IMF, WTO, Trading blocs.
- n.** B.E. factors do not pull in the same direction. There is a conflict between govt. factors and market forces between economic factors and the social factors and so on.
- o.** Politico-govt. factors dominate the environment because political ideology and stability set the tone and background for business.

3. What is business environment? Explain its scope?

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Scope:

The Business Environment has a scope that is external to an individual organization. In that sense, Business Environment refers to all external factors, which have a direct or indirect bearing on business decisions and activities. DSTEPIN is the acronym used to explain the scope of Business Environment in this sense.

- a) Social environment, technological environment, economic environment, political environment, international environment/global environment, and natural and demographic environment are the components of external environment.

- b) The scope of Business Environment is also referred to in a broader-sense. In that sense, Business Environment refers to both internal and external
- c) Knowing the environment is an important activity. In order to know the Business Environment the company should know the enacted environment. This is done by aggressively scoping, narrowing, and scanning the external environment. The firm develops domain and domain consensus. Domain refers to the range of products and services offered, markets served and services rendered. Organisation pays more attention on these areas. When all the stake holders agree upon the above mentioned three areas, it is domain consensus. Task environment specifies the range of products to be offered; the technology to be employed and productive strategies to be used to counter global competition.
- d) Environmental analysis is also an important area included in the scope of Business Environment. Environmental analysis seeks to bring FIRM – ENVIRONMENT_FIT. The environmental analysis provides an understanding of current and potential changes taking place in task environment/micro/operational environment. E.A. provides inputs for strategic decision – making. E.A. provides faster strategic thinking in organisations.
- e) Competitor analysis is also brought under the ambit of B.E. The framework of competitor analysis has four important components viz., future goals, current strategy, assumptions and capabilities.

4. “Firms which systematically analyse and diagnose the environment are more effective than those which don’t” - elucidate the need and importance of influence of business environment in the light of this statement? (or) Examine the impact of business environment on business?

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Never before B.E. has been so volatile and dynamic as it is today. The challenges of a business are formidable these days. There are many opportunities to grab upon these days to prosper. V provides an analysis of strengths, weaknesses, opportunities and threats for business units. So, the firms which conduct and analyse B.E. systematically are able to diagnose the B.E. very successfully. They are able to formulate effective strategies to counter like adverse effects of volatile changes in B.E. such firms are more effective than those firms which fail to analyse and diagnose the environment. Hence, the given-statement brings out clearly need and importance of the environmental analysis. Proper B.E. analysis makes the firms more effective. The statement that “firms which systematically analyse and diagnose the environment are more effective than those which don’t” is correct from different angles bringing out the significance of B.E. as detailed below:

Need/significance/importance of understanding and analyzing the business environment:

1. B.E. offers immense potential:

B.E. poses threats to a firm. It also offers immense opportunities for potential market exploitation. A firm is able to locate the new markets, new customers and understand the competitors in a better way by analysing B.E.

2. Effective decisions and strategies:

B.E. factors exert lot of influence over business decisions and strategies. The business decisions become more effective by properly conducting environmental analysis.

3. Dynamic B.E. instills more capabilities:

The B.E. is dynamic and ever changing. The factors are volatile. So, a business unit is able to cope-up with the challenges posed by B.E. factors STEPIN. A business unit becomes more capable, competent and strong through conducting environmental analysis. Internal and external environment decide the working.

4. Environmental analysis:

It enables a business unit to understand its strengths and weaknesses. The external environmental factors open many and immense opportunities for market exploitation. They also warn the enterprise about threats from competitors, government policy, etc.

5. A business is the product:

It is the product of the technological, political, legal, economic, social, cultural, global and natural factors amidst which it functions/works.

6. Survivals and success of a business firm:

It depends on its resources and its adaptability to the environment.

5. Explain the factors/components/forces/elements/constituents of the internal environment of the business enterprise?

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Factors/components/forces/elements/constituents of the internal environment :

1. Value system:

Value system of the founders and persons holding top positions have some values. These values influence their policies, practices, choice of business, vision-mission and objectives of the organization. Eg: TISCO incorporated its social responsibility to consumers, employees, shareholders, society and the people in articles of association. This is due to the value system of JRD Tata and acceptance of it by persons at the top of Tata business domain.

2. Vision-mission-objectives:

Vision-mission and objectives of the company decide the business domain, priorities, direction of the development, business philosophy, business policy. Eg: Ranbaxy's thrust into the

foreign markets and development have been driven by its mission “ TO BECOME A RESEARCH BASED INTERNATIONAL PHARMACEUTICAL COMPANY.”

3. Management structure and nature:

Some complex management structures and styles delay decision making. Quality of the board of directors is a vital element. There are some companies with highly qualified and responsible board. Some companies have dishonest and unscrupulous board. Eg: in some companies like WIPRO majority of the shares are held by promoters. In the case of TATA group of companies, the share of promoters is very vulnerable. Financial institutions had large shareholding in many Indian companies.

4. Internal power relationship:

Relationship between board members and the CEO is a critical factor. The cordiality between them is more important. Support enjoyed by top management from different levels of employees, shareholders and board of directors influences the decisions and their implementation.

5. Human resources:

Skill, quality, morale, commitment, attitude of people contribute to the strength of the enterprise. Employee resistance to change is a barrier to growth of an organization. Involvement, initiative of people vary from organization-to-organisation. Eg: John Towers, M.D. Rover group observes that a Japanese company of 30000 employees is 30000 process improves. Such a situation cannot be found in an Indian company.

6. Company image and brand equity:

Image of the company plays a significant role while raising finance, forming joint ventures, soliciting marketing intermediaries, entering sale or purchase contracts, launching new products etc., brand equity is also relevant.

7. Physical assets and facilities:

Production capacity, technology and efficiency of productive equipment, distribution logistics influence the competitiveness of the enterprise.

8. Research and development:

Research and development and technological capabilities determine a company's ability to innovate and compete.

9. Marketing resources:

Marketing efficiency of the business unit depends on marketing organization, quality of the marketing men, brand equity and distribution network.

10. Financial factors:

Financial factors like financial policies, financial position and capital structure influence business performance.

6. Explain the factors/components/ forces/elements/ constituents of MICRO environment of the business enterprise?

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Micro environment:

“ The micro environment consists of the actors in the company’s immediate environment that affect the performance of the company. These include the suppliers, marketing intermediaries, competitors, consumers and the publics. ” - Philip Kotler.

Micro environment is also called Task/ Operating environment.

Factors:

Micro environmental factors are shown in the adjoining figure. They are intimately linked with the company. The following are the factors in micro environment.

1. Suppliers:

Suppliers of the raw materials; other inputs and components to the company. Importance of reliable sources of supply is always felt by the company. When there is un-operating environment. Certainty of supply, companies maintain high inventory. As a result, cost increases. Supply chain management is very essential to the efficiency of a firm.

2. Customers:

Monitoring customer sensitivity is very essential. Customer environment is increasingly becoming global. Depending on a single customer is too risky. In choosing the customer segments, and company should consider relative profitability, dependability, stability of demand, growth prospects and the extent of competition.

3. Competitors:

A firm’s competitors are “the other firms” and those who compete for the discretionary income of the consumers. Eg: competition for a company TVs may come from other TV

manufacturers. Other competitors include two-wheelers, refrigerators, cooking ranges, stereosets, and so on. Consequent to the liberalization, the competitive environment in India underwent sea-change. Many companies restructured their strategies.

4. Marketing intermediaries:

Marketing intermediaries are the firms that aid the company in promoting, selling and distributing goods to final consumers. Marketing intermediaries are vital links between the company and the final consumers. A dislocation of the link may cost the company very heavily. Eg: Hindustan Unilever faced major challenge when it faced collective boycott in Kerala on the issue of trade margin.

5. Financiers:

Individual and institutional lenders. Financing capabilities, their policies and strategies, attitudes and activity to provide non-financial assistance are very important.

6. Publics:

Publics are the groups, which have actual interest in the ability of an organisation to achieve its targets. Media publics, citizen action publics and local publics are the examples. Growth of consumers publics (like NGOs) is an important development affecting business. Co-operation between company and publics is established for mutual benefit of the company and local community.

7. Explain business environment? What are the factors / components / forces / constituents / elements of business environment? (or) Define business environment? What constitutes a business environment? Into how many parts/types can you split environment? (or) what is external/macro business environment? What are the components of business environment? (or) "A business is a product of its environment" – discuss (or) Describe the various factors/components of business environment having an impact on the business decisions? (or) what are the different environmental factors that influence business efficiency?

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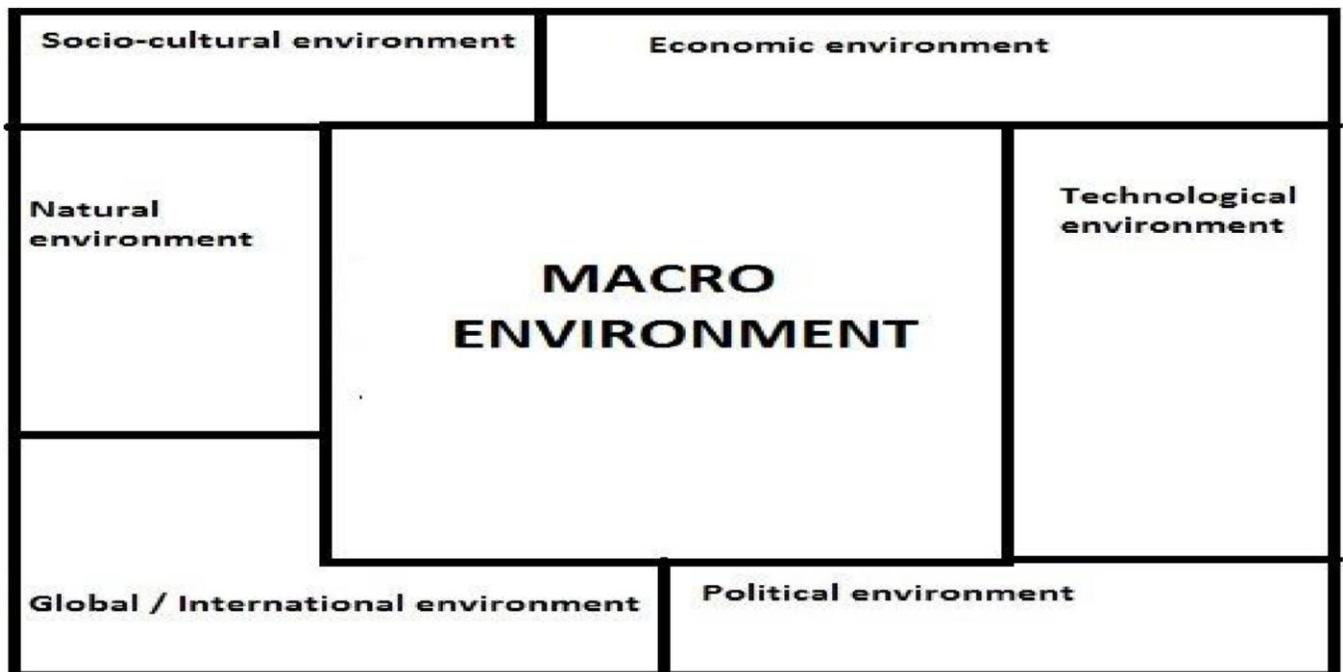
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Factors:

1. Sociological and cultural:

Sociological and cultural environment refers to influence of the factors which are beyond the company's gate/capacity. People's attitude towards the role of family, marriage, role of women in the society, cultural aspects in society, the education level of the people, the ethical issues involved, social responsiveness etc., are the important components of Business Environment. Socio-cultural environment is highly relevant for a business unit. The reason is the variety of goods produced, the type of people it gets and its social obligation depend on the cultural mileau in which the firm operates.

2. Technological:

Technology is understood as the application of scientific knowledge to practical tasks. Technology reaches people through the business. Technology changes fast. Businessmen should always be alert to the changed technology. They should adopt the changed technology to the business processes. A business unit, which keeps pace with technology upgradation, succeeds. Technological factors exercise considerable influence on business.

3. Economical:

Industrial production agriculture, planning, basic economic philosophy, national income, per capita income, money supply, price level, population, savings stages in economic development, trade cycles are the major economic factors. These economic factors have an economic impact on business. Business obtains all the needed inputs from the economic environment. Economy absorbs the output of business units.

4. Political:

Political environment refers influence exerted by legislature executive and judiciary. These three political institutions shape, direct and control business activities. Legislature decides a specific course of action. Executive implements whatever decided by legislature. Judiciary is the

'watchdog' to see that legislature and executive work in public interest within the boundaries of constitution.

5. International:

International / global environment is fast emerging as a force. Due to liberalization, Indian companies are looking at business issues from the global angle. Business responses and managerial practices must be fine-tuned to survive in the global environment. Today, managers understand that protected markets are no more; the world is becoming small in size due to advanced transportation and communication facilities; learning foreign languages is necessary; acquiring familiarity with strange and changing currencies is a must; facing political and legal uncertainties is inevitable; and adapting their products and services to different customer needs only makes them to survive.

6. Natural:

Industrial/ business activity is dependent upon nature. Till recently, business units did not care for ecological effects. Industries contaminated water and polluted air. Much environmental damage has been caused by industry. As a result, ecological imbalance has been created. Natural calamities like floods, cyclones, earthquakes cause lot of loss to business units. The bad effects of these natural environmental factors could not be mitigated by business units. Business continues to be dictated by nature.

7. Demographic:

Size and growth rate of population, life expectancy age and sex composition of population, work participation rate, distribution of population, employment status, rural-urban distribution of population, education levels, religion, caste, ethnicity and language are the demographic factors. These factors constitute demographic environment. Business decisions are also influenced by these demographic factors.

8. Attempt a note on the NEXUS between business and environment? (or) How are business enterprises and business environment inter-related? (or) explain the relationship between business environment and its factors on the operations of business?

Meaning of the business:

Modern business covers a complex field of industry and commerce relating to production and distribution. Industrial and commercial activities satisfy society's needs and desires. They bring profit the business is characterized by large size, oligopoly, diversification, global reach, technological orientation, change and government control. Modern business enterprises have partaken global-outlook.

NEXUS between Business and Environment interrelation between enterprises and business environment/relationship between business and environmental factors:

1. Internal and external environment pose threat to business and provide immense opportunities for market exploitation. The business enterprise formulates effective strategies to combat threats posed by the external environment.
2. Business decisions are dependent on the influence of external factors.
3. Socio-cultural environment exerts considerable influence on business activities. The variety of goods purchased, the type of people it gets and its social obligation depends on the cultural environment in which the firm operates.
4. Technological factors exercise considerable influence on business. Businessmen always alert to the changed technology. Technology reaches people through the business.
5. Business unit obtains all the needed inputs from the economic environment. Economy absorbs the output of business units.
6. The three political institutions viz., legislature, executive and judiciary shape, direct and control business activities.
7. Global environment is fast emerging as a force. Business-responses and managerial practices must be fine-tuned to survive global environment.

8. Business units activities are directed by nature. Economic activities are dictated by nature. Man's attempt to conquer the nature has not met totally. Hence, the natural factors have a valid impact on business activities.
9. Business decisions are influenced by the demographic factors also.
10. Business decisions in general and strategies in particular are moulded by the business environment. External factors like economic, political, regulatory, social, demographic, technological and natural factors of resources, internal power relationships decide the strengths and weaknesses of the firm.

9. Examine the significance of economic policies and decisions in Business organisations?

Business fortunes decisions and strategies are influenced by the economic policies and decisions. The general level of development of the economy has an important bearing on the nature and size of demand and government policies affecting business.

There are several economic policies with great impact on business. Important economic policies are the industrial policy, trade policy, foreign exchange policy, monetary policy, fiscal policy, technology policy and foreign investment policy.

Significance of economic policies:

1. Some types of categories of business are favourably affected by government policy; some are adversely affected and some policies are neutral.
2. Industries falling in the priority sector in terms of the government policy get a number of incentives and positive support from the government.
3. The economic policies may also regard some sectors as inessential. Such business organizations face odds.
4. Industrial policy defines the scope of and role of private, public, joint sectors, large, medium, small and tiny sectors. It also influences the location of industrial undertakings.
5. Trade policy significantly affects the fortune of the firms. Eg: A restrictive import policy greatly helps the import competing industries. Trade policy is integrated with industrial policy.
6. Exchange rate policy and the policy in respect of cross-border movement of capital are important for business. Eg: The abolition/liberalization exchange controls all around the world since late 1970's has encouraged cross-border movement.
7. A liberal foreign investment and technology policy will increase domestic competition and would put many domestic firms into problems. At the sametime, it would benefit many domestic firms by permitting global sourcing of capital and technology.
8. Fiscal policy is the pattern of public expenditure and revenue have significant impact on the business. The pattern of public expenditure may affect the development of industries. Eg: Taxation policy, government often uses tax incentives or disincentives to encourage / discourage certain activities. Both central and state governments often several incentives to attract industries.
9. Monetary policy is a policy of the central bank towards the cost and availability of credit. It influences savings-investment and consumer spending in the economy. Eg: A 1% point reduction in the cash reserve ratio or SLR will significantly increase the loanable funds with commercial banking system. Monetary policy is pressed into action to influence the exchange rate of the economy.

Unit – II

1. Explain what do you mean by technical environment?

Technology is one of the important determinants of the success of a firm. Technological / technical environment exerts considerable influence on business.

G.K. Galbraith defines technology as “systematic application of scientific or other organized knowledge to practical tasks.” **Technological factors:**

Innovations, govt. policy, technological orientations, research and development, technology import and absorption, technological obsolescence are the factors constituting technological environment.

Technology is one of the factors to evaluate the global competitiveness of the firms.

Features of technological environment :

1. The first feature is technology changes fast. Technology forces change on people whether they are prepared for it or not.
2. The time gap between idea and implementation is falling rapidly. The time between introduction and peak production is shortening considerably.
3. Business leaders must always watch for changes and development taking place. New developments must be adopted and new ideas explored, otherwise the business units would perish.
4. The effects of technology are widespread. Technology ripples through society until every community is affected by it.
5. Technology is reinforcing in its own. Technology feeds on itself. Technology makes technology possible.
6. Technological environment is a complex set of knowledge, ideas, and methods. It is likely to be the result of a variety of internal and external activities.
7. Technological environment is dynamic. Business means have to adopt the latest technology to survive and to have the competitive edge.

2. Examine the components/factors/elements/constituents of technological environment?

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components / factors/elements/constituents of technological environment:

1. INNOVATION;

It is a very important fact that provides competitive advantage. It determines success of the business enterprise. Introduction of a new product, use of new method of production, opening of new market, exploring a new source of raw material supply, reorientation of an industry or some of the forms of innovation.

Radical innovation:

Environmental innovation and next generation technology innovation are the three kinds of technological innovation. Product and process of innovations.

Product innovation refer to improving the performance and safety of the product.

Process innovation makes the product cheaper.

2. GOVT.POLICY ON TECHNOLOGY:

Technology policy of the govt. is an important element of technological environment govt. policy towards foreign technology is a critical factor.

Ex. A govt. may favour or disfavour certain types of technologies.

In countries like India, the over emphasis on indigenous technology led to high cost and distorted developments. The liberalized govt policy since 1991 paved the way for more technological collaborations and import of latest technology.

3. TECHNOLOGICAL ORIENTATION:

Technology is a pervasive part of the work environment. From the largest corporations to small business, technology orientation is focused. It reduces labour, improves quality, provide better customer service or change the way the firm operates.

4. RESEARCH AND DEVELOPMENT:

Continuous research and development is carried out world wide to make updated technology. Business enterprises spend huge amounts on conducting research into technology.

5. TECHNOLOGY IMPORTANT AND ABSORPTION:

Much of the successful growth has due to the purchase of updated technologies from abroad. There is a time lag between countries in the adoption and diffusion of technologies. Developing countries generally lag behind the developed once. Even among the developed countries, the technology absorption is not similar.

6. TECHNOLOGICAL OBSOLESCENCE:

Modernization of business through planned obsolescence is technology management constant efforts are always made to drive-out old and out dated technology. When new technology is developed, old methods become obsolete.

3. Explain the impact of technology on society? Or How does technology affect various areas? Or Examine the influence of technology on society, economy and plant?

THE IMPACT OF TECHNOLOGY IS DISCUSSED UNDER 3 HEADS:

1. SOCIAL IMPLICATIONS / TECHNOLOGY AND SOCIETY :

The most striking influence of technology is found on society the following are the points showing the impact of technology on society.

A. Technology reaches people through business:

People are a great variety of goods and services, thanks to technology. 50% of the economic growth of USA, UK, Germany, France and Japan has come from technical progress achieved in their countries.

B. High expectations of consumers:

People have high expectations. They want not more of the same thing, but newer things. New variety of goods, superior in quality, free from pollution, more safe and more comfortable are to be produced and supplied to affluent consumers. **C. System complexity:**

Technology creates complexity. As a result, living becomes more complex. Eg, failure of power supply will cause dry water taps, closed petrol bunks, suspended elevators between

floors, dark streets, dark houses, no TV and radio broadcasts, closed retail establishments and so on. More complexity in work and product systems is expected. **D. Social change:**

Technology helps to iron-out social differences. At the same time, it has created status differences.

E. Creation of social systems:

Along with, it technology has brought new words, new food, new dress and new food habits. Knowledge – society is created. Use and transfer of knowledge and information dominates the work.

2. TECHNOLOGY AND ECONOMY / ECONOMIC IMPLICATIONS: A. Increased productivity:

Technology has contributed to increased productivity in terms of quantity and quality. Eg. modern factories are now able to produce 10 seconds to produce one car and with a fewer defects, thanks to the introduction of “SIX-SIGMA” quality programmes.

B. Spending on research and development :

Firms are require to consider, decide and take action on research and development. Allocation of resources on research and development, technology transfer, time of introducing technology, replacement of old technology by new one, own or out source the technology, product or process innovation, and spending vast amount on research and development.

C. Jobs tend to be more intellectual:

A job lither to handled by an illiterate and un stilled worker now requires the services of an educated and competent worker. Arrangement of a production setup determines who eill be near whom, work flow determines who needs to talk to whom. **D. Techno structure problems:**

Traditional incentives fail to motivate individuals, retention of people is a problem, and there is a difficulty in placing people in a pattern.

E. Bio professional and multi professional managers:

Technocrats need to acquire skills by management education. Today’s business needs bio professional and multi professional managers, attention needs to be focused on KNOW- How (technology) and Do-How (management). **F. Increased regulation and stiff opposition:**

Technological advancement invites opposition from the people who beat thar new innovations are a threat to ecology, privacy, simplicity, process innovation and product innovation and even the human race. **G. Insatiable demand for capital:**

Technology demands huge investments of capital. Acquiring new ideas, and their adoption, educating, training, and maintain of the technocrats and managers – call for heavy investment.

H. Rise and decline of products and organizations:

Change in technology and new technology destroys the existing products and organizations. Eg: TV affected the businesses of radio-broadcasting companies and movies. A typical product and have a life-cycle of introduction-growth-maturity-decline-andabandonment.

I. Redefinition of business boundaries:

Companies may find themselves in a different business due to technological changes. Eg: Xeorx in the US landed itself in such position in its copier business, thanks to the success of Japanese firms in miniaturizing-products. Because Japanese firms introduced smaller-sized copiers, Xerox found itself selling to different distribution channels.

Technology change gives rise to product substitution and differentiation. Eg: plastics replaced many uses of steel. Automatic-robotics-CAD/CAM have bestowed cost and quality advantages on many companies.

3. TECHNOLOGY AND PLANT LEVEL IMPLICATIONS: A. Technology and organization structure:

Where the companies use fast-changing-technology, matrix structures are common. Organisations, which use small-batch technology make one-of-a-kind small quantities of products. Organizations with a mass production technology produce large volumes of production. Eg: cars, razor-blades, soft drinks. Organizations with continuous process technology produce continuously with little variation in output. They have 6 levels of hierarchy, have organic structures and have low cost of production. **B. Fear of risk:**

Technology is always the fear of risk. Eg: Du Pont's corfam, an intended substitute for the forecasted shortage of shoe-leather. After an investment of \$300 million, the company abandoned the project in 1971 due to quality and cost problems.

C. Resistance to change:

Adapting new technology is expensive and risky. Eg: Bajaj Auto Ltd., The company claims to be No:2 in the world of manufacture of two-wheelers. During the last two decades, the company could not develop a self-starting scooter. **D. Total quality management:**

Almost all organizations have introduced TQM. Managers search out for improved policies and activities. Employees must search for newer and better ways of doing things.

E. E-commerce and E- business:

E-commerce through internet is made possible through technology. E-business emphasizes integration of systems, processes, organizations, value chains and maoperates through INTERNET.

F. Flexible manufacturing system:

Integration of computer aided design, engineering and manufacturing workers need more training and higher skills.

4. "Technology is the invisible input in business". Explain the significance / need / importance/role of technology in business? Or What is the influence of technological environment on business?

TECHNOLOGICAL ENVIRONMENT AND BUSINESSES:

- Technology is the invisible input in business. Science and technology make lot of differences in economic and social life.
- Industrial and agrarian development in the present era are technology driven,
- Technology is all pervasive. Small and big industries, agricultural and secondary sectors, service and infrastructural sectors, rural and urban sectors all need technology.
- Availability of appropriate technology, technology development, technology absorption and technology upgradation influence businesses very much.
- Import of technology and development of indigenous technology are the two eyes for industrial and business development.
- Businesses must manage technology, instead of being dictated by technology. That is technology should be used for human and business development together.
- Modernization of businesses through planned obsolescence is one aspect of technology management.
- Development hinges on technology, hence the relevance of technological environment.

- Technology forecasting is needed so that businesses can plan for future in a firm way.
- If in a country technology is not given due importance, its businesses will stand no ground in the competitive world.

5. Explain political environment? Explain the nature, features and factors constituting political environment?

Political environment refers to the influence exerted by legislature, executive and judiciary. Democracy has these three institutions. These three political institutions shape, direct and control business activities. Legislature decides a specific course of action. Executive (also called as Government) implements whatever decided by legislature (parliament and state assembly). Judiciary is the “watch dog” to see that legislature and executive work in public interest within the boundaries of constitution.

A typical businessman interacts more with the executive. Politics determine economic and business policies. “The two most powerful institutions in society today are business and government; where they meet on common ground, amicably or otherwise together they determine public policy, both foreign and domestic for a nation” – DIMOCK.

Factors consisting of political environment:

a. Political system:

Political systems include the democracy and autocracy. In democracy, the government is of the people, by the people and for the people. Democratic systems offer equal rights and opportunities to the people.

Autocracy is a government by the autocrats. People’s fundamental rights are abandoned by the rulers. No freedom is given to the political organs of legislature, executive, judiciary and press.

b. Political institutions:

The national and regional parties, their structure, and their style of functioning etc., constitute the political systems. In our country, the congress has been the national level political party for many years. Of late, many regional parties like DMK, Telugu Desam, Praja Rajyam, Trinamul Congress have become state level. Political parties yielding considerable influence on state issues.

c. Political ideologies of the parties:

Commitment to socialism, capitalism, communism, large industries vis-à-vis small industries, domestic industries vis-à-vis small industries, domestic industries vis-a-avis multinational corporations are some of the political ideologies of the parties. The priorities of the political parties shift according to their ideology. For sometime, the then Janata party did not favour the entry of MNCs into our country. Since 1991, the reforms regime set-in under the prime ministership of the late Sri P.V. Narasimha Rao, of congress party. The party embarked upon LPG (Liberalisation, Privatization and Globalisation). This favoured Indian companies to acquire global perspective and FDI inflows pour in to the country. MNCs opened up their units in our country.

d. Political stability:

This is marked by the continuance of same party in power for a fairly longer period. Even if a new political party assumes power, it may continue to implement the same policy of the earlier party. Eg: Reforms regime of Late Sri P.V. Narasimha Rao government of congress party continued after the congress party lost power at central and state levels. This ensured stability of economic reforms in our country.

e. Strength of opposition and political nature of parties:

A strong opposition party is a pre-requisite in democracy. It puts a check on the ruling party in ensuring a safe-secure-and-clean administration. But, in practice, opposition parties are losing their stature sometimes in questioning the secure of propriety of the ruling party. Political stability and opposition unity affect business environment.

6. Bring out the influence/impact of political environment on business? Or attempt a note on politics-business NEXUS? Or Write an essay on govt.-business interface?

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Impact/influence/NEXUS/Interface:

- a. Political environment influences the legal and governmental factors which in turn affect businesses.
- b. It is the political ideologies of the late Smt. Indira Gandhi that resulted in vast role for public sector; banks nationalization, 20-point programme. The Janata party industrialization-policy banned the entry of MNCs into our country. The successive policy statements of different governments at central and state level did not favour the growth of industrial sector to the extent desired. Again in July 1991, the congress government under the prime ministership of late Sri P.V. Narasimha Rao embarked on “reforms-regime” embarking on liberalization-privatisation-globalisation of the economy.
- c. Political stability and opposition may affect business environment. Investment policies of businesses, choice of location of businesses depend on political stability. Foreign direct investment can be attracted, when there is political stability.
- d. Politics- business NEXUS is always existent throughout the world. Stable government policies, efficiency and timely action by the civil servants, greater understanding among different ministries etc., have an influence on business.
- e. The political system comprises of capitalism, welfare capitalism, socialism, communism and mixed economy. Capitalism is pro-private business. Businesses are directed by market mechanism, least influenced by government factors. In socialist political system, businesses are run and closely controlled by state. In communism, businesses are like government departments. In a mixed system, side-by-side, public and private ownership exist.
- f. The government plays the roles as a regulator of business, as a promoter of business, as an entrepreneur and as a planner of business activities.

- g. In our democracy, three political institutions. Role of legislature on business is considerable. Executive has responsibilities to business and business owes many responsibilities/obligations to government. Judiciary is increasingly becoming activist.

6. Explain the political institutions under democracy? Or Discuss the impact of legislature, executive and judiciary on business?

The political system under democratic set-up comprises three vital institutions viz., Legislature, Executive and Judiciary.

Legislature:

Legislature is the most powerful political institution. It is vested with the powers of policy-making, law making, budget approving, executive control, and acting as a mirror of public opinion. Parliament (LOK SABHA) and state assemblies.

Executive:

Executive is also called the 'state and government'. It is the centre of political authority. It has powers to govern those it serves. The government controls the structure and functioning of the society. The government implements whatever decided by the legislature central and state governments.

Judiciary:

Judiciary determines the manner in which the work of the executive has been fulfilled. Judiciary sees that the exercise of authority conforms to the general rules laid down by legislature. It may declare that a particular order issued is, in fact, ultra vires. It also settles the disputes between private citizens; between citizens and governments.

Impact/influence of the political institutions on business:

- a. The influence of legislature on business is considerable. Legislature decides the type of business activities the country should have; their ownership; their size of operations; their earnings and other related factors.
- b. A typical business person interacts more with Executive. Captains of business should consider the government as a big-brother who is more wiser and more matured. Business involvement in political activities generates varied arguments. Captains of business involve in political activities by funding parties or by contesting elections. Tatas supported political activities. They financed a number of organizations in Mumbai. Birlas run newspaper, finance political candidates and parties. Thus, the NEXUS between business and politics is an established fact. Business units make monetary contributions to political parties.
- c. No business can function and survive without governments help. Government establishes and enforces LAWS. Peaceful atmosphere is ensured by the law enforcement bodies. Government provides a system of money and credit by means of which transactions can be affected. Government provides infrastructural facilities, such as transportation, power, finance, trained personnel and civic amenities. Many developed countries use protectionist measures like QUOTAS and TARIFFS to protect domestic industries.
- d. India follows a common law. It is based on the cumulative wisdom of judges decisions on individual cases. Tradition plays a major role in common law countries like US, Canada,

England, Australia, New Zealand, India etc., In common law countries, contracts, torts and agency are controlled by collections of principles deduced from specific disputes resolved in an adversary process. CIVIL LAW is codified legal system. It is based on a detailed set of laws which makeup a code.

The power of the JUDICIARY to settle legal disputes affects business considerably. Judicial activism refers to the review power vested with the courts and its scope varies with the width of power conferred on courts.

7. Describe the features of different politico-economic systems and their influences on business environment?

Political system and business relationship in India:

Political system refers to the set of factors relating to political institutions, the political parties and their ideologies, the form of state governance and the roles of the state and its functionaries vis-à-vis the role of individuals and their organizations. Every country has political system.

There are different forms of political system-Capitalism, welfare capitalism, socialism, communism and mixed economy. A brief summary of each of the forms is presented below **A. Capitalism:**

Capitalism is political economic system. Wherein, private ownership and initiative, individual freedom to produce, exchange, distribute and consume, market mechanism and consumer sovereignty, and limited role of government are found. In short capitalism may be called as 'free enterprise economy', where state control on businesses is nil or minimum.

The features of capitalism are:

1. Private ownership:

Private ownership means business enterprises are owned and run by individuals or group of individuals. Individuals have property rights and own factors of production.

2. Individual initiative:

Individuals use their brain, brawn and bank (that is capital) according to own initiatives and drives. There is no state direction or drive.

3. Free enterprise:

The above two features result in free enterprise. That is people put up businesses to produce goods and services and market the same.

4. Market mechanism:

Market mechanism refers to the power and play of demand, supply, the competition, etc. Demands determine investment avenues and size, demand and supply determine price and profit, the level of competition influences is influenced by all the above referred to.

5. Consumer sovereignty:

In a capitalist society consumer is the king and producers simply serve their consumer masters and in the process make profit.

6. Competition:

Competition among buyers and competition among sellers are the dominant forces in a capitalist society. As competition in a particular segment arises, efficiency of that segment rises. No imperfection is allowed to creep into the system. So, there is all round perfection, quality improvement, innovation etc.

7. Entrepreneurial society:

Capitalist society is actually an entrepreneurial society where entrepreneurs come up in good number and diverse activities are taken up by them.

8. Right to save and invest:

People have the right to save and invest. They can postpone consumption and to that extent they save and the savings can be freely invested adding to their wealth.

9. Central plan is absent:

The government does not plan on what industries, or traders or other economic activities must be taken up by itself or by its citizens. It is a 'laissez faire' system.

10. Bureaucracy is absent:

As there is no government control, there is no intervention of the civil servants of the government. So there is no delay, no red-tape, no corruption, and so on.

Relationship between capitalist political system and business:

The capitalist political system is pro-private businesses. Efficiency is rewarded in the market. Businesses flourish through efficiency, innovation and serving the consumers. Businesses are directed by market mechanism, least influenced by governmental factors.

B. Welfare capitalism:

Capitalism has certain limitations such as neglect of certain business not yielding good profits or those involving greater risk individual 'good'. So, some state role is needed. Here in the government intervenes and fills up the gaps to ensure maximum social advantage. Government supplements and does not substitute private entrepreneurs. The characters of capitalism are applicable to this system in total, subject to the above referred to variation. Government relationship with the business takes the same pattern as in the same capitalism, except the government intervenes in a small way to ensure social welfare of people at large. **C. Socialism:**

Socialistic political system is characterized by state ownership of production, exchange and distribution. The main features of this system are i) government

ownership and/or control of factors of production, ii) government direction of production, exchange and distribution, iii) central planning of resources mobilization, allocation financing iv) left on individual freedom and initiative v) government interference in income distribution, vi) government direction on physical distribution and pricing of products vii) consumer is not the king, only the state is all powerful and so on.

In a socialist political system, businesses are run and/or closely controlled by the state. Businesses are run by bureaucrats and not by people with business acumen. Businesses are distanced from profit goal. State policy determines what industry to be developed and which is not nurtured, sometimes even is curbed. Business is dominated by the government bodies. **D. Communism:**

A communist political system is nothing but 100% state control of all human activities. It is also known as state capitalism. Production, exchange, distribution and consumption are all state controlled. The difference between socialism and communism, is that in communism, consumption is also state controlled. Businesses are run almost like government departments. The dominant environment of business is, truly, the government factor.

E. Political system and business relationship in India:

In the preceding pages, we have described different political systems and their implications for business. Now, turn to consider the Indian case. **F. Mixed economy:**

In India we adopt the 'golden mean' of capitalism and socialism. Side by side, public and private ownership exist. This system is known as mixed economy. The features of capitalism and socialism are jointly present in this system.

Private initiative freedom of enterprise, consumer sovereignty, individual savings and investment profit orientation and market mechanism are all there. But not entirely free of government control. State initiative, state enterprise, state investment, social objective like equal distribution, balanced development of a regions, concessions and privileges for the less privileged reservations for the benefit of weaker sections, etc. are found.

8. Describe the fundamental rights guaranteed by constitution of India?

The preamble:

The preamble is an introduction to the constitution and contains its basic philosophy. The preamble to the Indian Constitution states that

"We that people of India having solemnly resolved to constitute ourselves into a Sovereign, Socialist, Secular, Democratic Republic and to secure to all citizens:

"Justice, social, economic and political;

Liberty of thought, expression, belief, faith and worship;

Equality of status and opportunity; and to promote among them all fraternity assuring the dignity of the individual and the unity and integrity of the nation.

In our constituent assembly this 26th day of November 1949 Do hereby Adopt, Enact and give to ourselves this constitution.”

The words- “we, the people of India ... adopt, enact and give to ourselves this constitution”, - declare the ultimate sovereignty of the people of India and that the constitution rests on their authority.

Thus, the goal envisaged by the constitution is that of a “Welfare State” and the establishment of a socialistic pattern of society.

The preamble recognizes the truth of the proposition that political freedom is not an end by itself; it is a means to secure to all citizens social, economic and political justice. In other words, the preamble commits India to the ideal of converting political democracy established by the constitution into a social and economic democracy and that too in a democratic way, under the rule of law.

Certain key words in the preamble need elaboration.

Fundamental rights:

Fundamental rights are legally enforceable rights governing the relations between the State and the individual. These are rights of liberty permissible undeveloped laws. These are rights which enable individuals to develop their personality and facilities and to live their lives in their own interest and in the interest of the society as a whole.

Indian constitution provides for the following rights:

a. Right to equality:

It means, freedom of speech and expression, freedom to assemble peacefully, freedom to form associations and unions, freedom to move across the country, freedom to reside and settle in any part of the country and freedom to carry on any trade or occupation.

b. Freedom of religion:

It refers that (a) all persons shall be entitled to freedom of conscience and right to practice and propagate the religion freely, and (b) the Sikhs shall be allowed to wear and carry kirpans.

c. Cultural and educational rights:

These enable the minorities in India to preserve and promote their language, script and culture by starting and running their educational institutions. No citizen can be refused admission in any educational institution maintained or aided by the government on account of only religion, race, caste, language or any of them.

d. Right against exploitation:

The dignity of individual is recognized by the constitution and it protects him/her against any form of exploitation either by the state or by the privileged classes in the society. Forced labour, traffic in human beings, slavery or use of women for immoral or other punishable purposes and employment of children below 14 years of age in any factory or mine are prohibited.

e. Right to constitutional remedies:

The people are conferred the right to move the supreme court in case of encroachment on the fundamental rights by the state. Accordingly 'Writs' of Habeas Corpus, Mandamus, Prohibition, Quo Warranto and Certiorari are issued to ensure respectively that a person is not detained without a valid reason and trail, that a public duty is performed by a public body or an official that an inferior court does not deal with an issue on which it has no jurisdiction, that a person does not act in a capacity to which he is not entitled and that an inferior court submits the records of a case pending before it to the superior court of law.

(In 1978 the government at the centre removed the Right to property of individuals.)

These fundamental rights are intended to guarantee to every individual certain fundamental rights. These rights give moral character to the state and prevent the state becoming despotic. These rights are above all other laws of the land.

These rights set the conditions of social life of the people. Social life includes the businesses that people may carry on. The right to freedom gives the people the freedom of trade and occupation. Perhaps, it is here the right to business and hence competition, emanate. Hence there is the significance of fundamental rights in business environment.

Directive principles of state policy:

Directive principles of state policy, enshrined in the constitution, provide a clean expression of the measures that should be taken by the Union government, parliament, state governments and state legislatures to achieve the socio-economic and political objectives of national development. These principles are unique to Indian constitution. They provide directions to the executive (Union or State Governments) and Legislatures (Parliament and State Legislatures) as to how they should exercise their authority. Though these are not justifiable, courts cannot totally ignore them.

The directive principles lay down that the "state shall strive to promote the welfare of the people by security and protecting a social order in which justice-social, economic and political, shall be practiced by all the national institutions." Directive principles, are in fact, affirmative instructions to the government to do certain things.

The economic rights and principles of social security which the constitution specifically requires the state to ensure for the people are as follows:

- i) Distribution of ownership of material resources in a way that it does not result in monopoly.

- ii) Organizing the economic system in a way that it does not lead to concentration of wealth in few hands.
- iii) Ensuring equal pay for equal work for both men and women.
- iv) Taking effective steps to provide for work, education and public assistance in cases of unemployment, old age, etc.
- v) Guarding children against exploitation and providing opportunities and facilities for development.
- vi) Improving conditions of work.
- vii) Ensuring for all workers decent wage and standard of living, reasonable leisure and cultural activities.
- viii) Providing compulsory education for children. ix) Doing its best to raise the standard of living of people and state of public health.
- x) Taking efforts to start and encourage cottage industries on individual or co-operative basic. xi) Protecting the economic and political interests of the scheduled caste and tribe people.
- xii) Improving the breeds of cattle and preventing slaughter of cows and calves.
- xiii) Fostering respect for international law and treaty obligations.
- xiv) Encouraging the settlement of international disputes through arbitration and other peaceful means.
- xv) Ensuring workers participation in management of undertakings and establishments.
- xvi) Endeavouring to protect and improve the environment and safeguard the forests and wild life.

Directive principles of state policy, as seen above, provide the basis of a welfare state and an egalitarian society. They form the basis of social, economic and political ideals of the nation. As social, economic and political lives of people are touched upon by the directive principles, they also influence business environment. Businesses have to conduct their affairs in such a way that the directive principles are adhered to by them.

9. Explain the obligations of responsibilities of business towards government?

Business responsibilities to government:

Business firms have a number of responsibilities to the government. Business firms must obey the laws of central, state and local governments. Such laws and regulations may pervade the entire gamut of a business enterprise. Business must go beyond obeying laws and regulations. It should look to the government for support, sustenance, encouragement and guidance. Business leaders must look upon government as a big brother who is wiser, more matured, more mellowed and less impetuous element in business. Business must also play a vital role in helping the government to develop its functioning capabilities. A few important responsibilities of business towards the government are explained below:

a. Tax payment:

Taxes paid by business enterprises constitute a major source of revenue to the government. Firms themselves pay regular taxes on their sales, inputs and income and also deduct, of source, income taxes from salaries and wages of employees and remit the collections to the government.

b. Voluntary programmes:

Business firms cooperate with government agencies on a voluntary basis in connection with various programmes such as withholding stated amounts from wages and salaries of employees for the purchase of National Savings Certificates, or giving special assistance to local governmental units in connection with drought relief, education, tree planting, sanitary works or recreational activities. In cooperation with the government, business firms train the unemployed and support non-discriminative recruitment of personnel and workmen. Business extends these facilities under the name of social responsibility.

c. Providing information:

Political leaders, either because of inexperience or over enthusiasm, make certain decisions which may not be in the overall interest of business. The onus then lies with business leaders to place before the decision-makers the facts and problems, individually or through forums, and argue for the modification or change of decisions. Business leaders possess the necessary knowledge and experience to place their points of view before the political leaders.

d. Government contracts:

Many business firms bid for government contracts and, if successful, carry out the resulting projects with the required specifications and standards. Housing projects, oil pipelines, turnkey projects and others are executed by private business houses for the government.

e. Government service:

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

f. Political activity:

Political participation is a much debated subject today. These are arguments for and against participation of business in political activities. Justifying business-politics nexus G.D. Birla once said, "As the Bhagavad Gita says, every man must do his duty-which means if you are a wealthy man, you must do your duty by your wealth, and his dharma is to provide for general welfare. If political action is involved in this, I don't see why I should fight shy of it". Edwin M. Epstein also support corporate involvement politics. Involvement enhances the quality of pluralism and provides an additional safeguard against the authoritarian potential of a mass society.

Opposition to business involvement in politics is equally strong. J.R.D. Tata once wrote: "I have never regretted my decisions to stay out of politics which I rationalized to myself by concluding that I could do more for my country in business and industry than in politics for which all my instincts in any case made me unfit." More powerful argument came from Arnold Maremont. Stated he: "it is my conviction that business ought, for its own good, to stay out of politics. I favour the widest possible participation in politics as an individual basis, for when it becomes the province of the elite few, our systems are in danger. It is when corporations begin running political classes, conducting political schools, and urging that their executives enter the political arena to expand the corporation's viewpoint that I become deeply fearful of the consequences."

Different viewpoints apart, business has been involved in political activities since long. Contrary to protestations of J.R.D. Tata, the Tatas did support political activities. They financed a number of organizations in Mumbai that are critical of what they call the soviet model of development. They were also closely connected with the establishment of Swatantra Party in the 1960s. birlas do much more. They run newspapers, finance, political candidates and parties and even contest elections on their own. Infact, they have always played an active role in politics, and did so

even before independence, when it was much more hazardous to do so. Instances of this type are many. Nexus between business and politics is therefore, an established fact.

What are the ways of involvement is the next logical question. One way is to make monetary contributions to political parties, particularly at the time of elections. Corporate contributions to political parties have now been legalized in our country, merits and demerits notwithstanding. The other way of participation is for business leaders to contest elections as independents or on party labels. The third way of involvement is through lobbying which refers to behaviour after the elections and is concerned with securing legislation in the favour of business.

10. What is government? What are its responsibilities to business?

Government responsibilities to business:

Government responsibilities to business are much greater than the obligations of business to the government. Government has the power, will and resources to decide, shape, guide and control business activities. Being democratically elected and having accepted the mixed economy, our government is clear about the role it has to play and the responsibilities it has to discharge towards business houses. As promoter and regulator of business activities, the government has been discharging its obligations quite effectively, failures notwithstanding. Specifically, the government's responsibilities towards business are as follows:

a. Establishment and enforcement of laws:

Government establishes and enforces laws and regulations under which the business functions. Laws and regulations covering all aspects of business are enacted by the government. Government is responsible for providing the 'rules of the game', which make the business systems function smoothly and which help maintain competition, or if monopolies develop, to regulate them or supplement them by government operations. It is the responsibility of government to enforce the laws and to provide a system of courts for adjudicating differences between firms, individuals, or government agencies.

b. Maintenance of order:

Government has the responsibility of maintaining order and protecting persons and property. It would be impossible to carry on business in the absence of a peaceful atmosphere.

This is borne out by the decline in the number of industrial licenses issued to Punjab during 1986. The total number of licenses issued during 1986 was 618. Of these, Punjab accounted for only 37 as against 94 the state has bagged in 1984. "This is perhaps", remarks economic times of march 14, 1987, "due to the disturbed conditions prevalent in the state".

c. Money and credit:

The government provides a system of money and credit by means of which transactions can be affected. It is also the responsibility of the government to regulate money and credit and protect the integrity of the rupee, that is, to guard against rapid fall in its value.

d. Orderly growth:

Orderly growth implies balanced regional development, distributive justice, full employment and protecting the economy against 'booms and busts'. The government has the resources and capabilities to ensure orderly growth.

e. Infrastructure:

Business needs for its effective functioning such infrastructural facilities as transportation, power, finance, trained personnel and civic amenities. It is the responsibility of the government to provide these facilities.

f. Information:

Government agencies publish and provide a large volume of business information. Information services are provided by the departments of commerce, industry, agriculture, labour, health, education, banking, atomic energy etc., many state and local governments provide information highly useful for business.

g. Assistance to small industries:

Government provides the required facilities and encourages the small scale sectors to grow.

h. Transfer of technology:

The ISRO, a central government undertaking, has successfully spun-off more than 130 products/processes from its labs to the Indian industry in the last decade. Out of these, 110 are in active production.

i. Government competition:

Government competes with private firms for regulating competition, improving quality, or to supplement private activities with government programmes. Government may regulate the prices charged for buyers.

j. Inspections and licenses:

Foods and drugs administration conducts inspection activities for assuring quality products to consumers. Government issues licenses to competent business establishments to carry on different activities.

k. Tariffs and quotas:

Tariffs and quotas are used by the government to protect business from foreign competition. Incentives and subsidies are granted by the government.

11. State and explain the reasons for increasing government intervention in business? Or present a case/rationale/relevance/need for state intervention in business?

One of the features of modern business is the increasing involvement of the government in business activities. As of today, there is no country in the world where the government of the land does not interfere, in one form or the other, in its economic

activities. Involvement is all the more pervasive in our economy which till recently was a planned and regulated one.

Reasons for state intervention/case for /need/relevance rationale for government interference:

The following constitute the answer:

- A. Economic historians have noted that the later a country moves towards economic development, the greater has to be the role of the state. Delayed growth has to be sponsored growth, and the government has to be the sponsor.
- B. It is argued that the modern economy must be a planned economy. The need for planning becomes clear if we examine the dangers of non-planning. In the absence of planning, there is no proper direction to the economy, wrong priorities are chosen, scarce resources are wasted, and booms and depressions occur regularly. In order to check these and some other evils, and to ensure speedy and balanced development of the economy with the least wastage of resources, planning becomes necessary. Who else except the state should assume responsibility for planning and implementing the plans.
- C. Ours being a socialist society, the government is compelled to enter directly into industrial and commercial activities. Our constitution binds the government to take an active part in economic activities. The state's role is clearly underlined in the preamble, the fundamental rights and the directive principles of state policy. Article 38 to 48 of the directive principles; the right to equality; the right to freedom and the right against exploitation of the fundamental rights and justice, liberty and equality for all in the preamble make it mandatory for the state to participate in economic activities.
- D. The considerations which apply in deciding what undertaking is to be established, how it should be run, where it should be established, how its products will be priced and distributed, all these and other considerations are influenced by the policy to which the government is committed. For instance, the government must consider not so much what the likely demand is going to be according to market projections, but may in fact have to decide what the demand should be, and take steps to influence the demand, either to build it up or to pare it down or to vary it. If the country is to achieve a certain pace of development, if certain standards of living are to be attained, certain demands must be created. Otherwise the whole pace of development will slow down, and not be adequate to attain the targets which the nation has set before itself.

This is a feature which private enterprises cannot cope with. For example, the standard of living of a people can be statistically related to the power and to the steel per capita consumed in the country. There are several such indicators. A government politically committed to certain social objectives may then well decide that in order to achieve these per capita ratios, it may be necessary to setup, to evolve and to operate a pattern of prices, subsidies, incentives or disincentives of different kinds in order to influence the consumption pattern.

- E. The functions of the government which were originally limited to the maintenance of law and order have considerably expanded. In our country, the government has assumed the responsibility of social and economic well-being of the people. In this changed context, taxation can no longer be solely depended upon, and in fact has proved inadequate, for the task of raising the total revenues, the state now needs for its multifarious activities. By active participation in business, the state has sought to tap the gold mines of industry and commerce for the funds needed to discharge the new and heavier burdens it now shoulders.

- F. State participation is necessary to lay a strong base for the future development of industry and commerce. The government must assume responsibility for the development of core industries and facilities such as power, fuel, iron and steel, transport, atomic energy, machine building, machine tools, transportation and communication.
- G. Finally, the failure of markets unveils government intervention in an economy, as is too well known, markets may be monopolistic or competitive. Monopoly leads to the wastage of resources and exploitation of consumers. Clearly, avoidance of these evils is the main reason for state intervention. Infact, protection of consumers against trade practices harmful to public interest is the main objective of the competition act. 2002. If monopolies fail, it does not imply that competitive markets succeed. Infact, competitive markets often fail because of atleast three reasons: i) externalities, ii) public goods, and iii) information problems.

Externalities:

Externalities are costs or benefits that the market transactor imposes or confers on third parties (those external to a transaction) without their consent. Externalities are also referred to as neighbourhood or spillover effect.

The most frequently used example of a negative externality is pollution, resulting from either the manufacturer or use of some product, which imposes costs on individuals who neither produce nor consume the product in question. In general, when production involves such negative externalities, competitive markets fail.

Public goods:

Public goods are those having atleast two properties: i) consumption of the goods by one person leaves no less of the goods available for anyone, and ii) the costs of excluding those who do not pay for the public good are extremely high (i.e., the good is non-excludable). Obviously, many goods that we commonly describe as public are not truly public goods. However, markets fail to deal with a product which is purely or partly public in nature. Government financing or even production is required.

Information problems:

Embedded in most discussions of competitive markets is an assumption that consumers are well informed about various sellers and the prices and attributes of their products. Obviously, the real world never conforms to this idealized assumption. Even competitive markets, therefore, left to themselves impose serious welfare losses on the society. Hence, the relevance and need for state intervention.

12. Explain the different forms of government intervention? Or What are the different types of government controls on business?

Types of intervention/controls/regulations:

Also called as controls or regulations, government intervention assumes several forms. Thus, we may distinguish between formal and informal controls, between inductive and coercive controls, between direct and indirect controls, controls in relations to competition and promotional and regulatory controls are as follows:

1. Formal and informal controls:

Formal controls are usually those emanating from legislation, as for, example, the FEMA, the companies act, 1956 and the competition act 2002. Formal controls are very

powerful and when we think of government control over business, we generally mean formal controls.

Informal controls refer to the controls which various groups impose upon themselves out of need and custom. Business firms in various lines of activity develop conventions, informal agreements and accepted ways of doing things that have important regulative implications.

2. Coercive and inductive controls:

Coercive regulations require performance of certain actions or retaining from others in order to avoid penalties. For instance, taxes must be paid or fine or imprisonment may result.

In contrast, inductive controls hold out a promise of reward for compliance with the desired line of action. For example, subsidies may be granted to stimulate certain activities.

3. Direct and indirect controls:

When the government fixes prices of certain products or services, it is an example of direct control. The administered price policy of the government of India is a direct control measure. The variation of corporate income tax to influence economic activity is an indirect control measure. Businessmen prefer indirect controls to direct regulations.

Effect on competition:

Depending on the relationship to competition, regulations may be:

- a. Government regulations designed to make competition work, the competition act,
- b. Government competition with business firms as a means of setting standards of competition, or
- c. Direct government ownership and operation to supplement competition.

4. Promotional and regulatory controls:

Promotional measures are of a positive nature, and include such activities as expansion of public sector establishment and operation of development banks, revival of sick units, encouragement to small-scale units, removal of regional imbalances, provision of incentives and subsidies and export promotion.

Regulatory measures ensure orderly development of industries with the least wastage of resources. Regulatory measures include direct controls like the industries (Development and Regulation) Act, the competition act, the companies act, the foreign exchange management act and price and distribution controls, labour laws and indirect controls like monetary policy and fiscal policy.

Unit – III

1. Explain what do you mean by economic environment of business? Describe its nature and features?

Economic environment of business refers to all those economic factors, which have a bearing on the functioning of a business unit. The economic environmental factors are numerous. They include:

Growth strategy, economic systems, economic planning, industry, agriculture, infrastructure, financial and fiscal sectors, economic and industrial policies of the government removal of regional imbalances price and distribution controls, economic reforms, human resources, per-capita and national income

Money supply, price level, population, savings, stages in economic development, trade cycles, GDP, NNP, investment, size and scope of public sector, reservation of industries, balance of payment position, flow of foreign investment, incentives for selected industries/regions, volume of exports and imports, plan outlays, government budgetary allocation, rate of inflation, public.

Nature and features of economic environment:

- a. Economic environment of a country is MACRO-LEVEL. The macro-level factors relate to the means of production and distribution of wealth. They have an influence over business of any enterprise. These macro-level factors are uncontrollable by any one individual business unit.
- b. Business unit obtains all the needed-inputs from the economic environment. The economy absorbs the output of the business unit.
- c. The economic policies of the government especially the industrial trade, fiscal and monetary policies shape the opportunities for business.
- d. Business environment is volatile. It is not the same as it used to be prior to July 1991. Major changes are marked by the reforms-regime in our country. Economic reforms in various sectors of the economy have shaped the Indian economy to become global.
- e. Economic system of the country determines the parameters of the business activity. In a recessionary situation, the economic environment is marked by slow-down activities.
- f. Global economic environment is as much Important as the national economic environment. The notable features of present day global environment are globalization, deep economic crisis in east and south east Asia, underdevelopment of Russia and east Europe, global recession and dominance of MNC's

2. Briefly describe the factors constituting the economic environment of a country?

Economic environment of business refers to all those economic factors, which have a bearing on the functioning of a business unit. The economic environmental factors are numerous. They include:

Growth strategy, economic systems, economic planning, industry, agriculture, infrastructure, financial and fiscal sectors, economic and industrial policies of the government removal of regional imbalances price and distribution controls, economic reforms, human resources, per-capita and national income

Money supply, price level, population, savings, stages in economic development, trade cycles, GDP, NNP, investment, size and scope of public sector, reservation of industries, balance of payment position, flow of foreign investment, incentives for selected industries/regions, volume of exports and imports, plan outlays, government budgetary allocation, rate of inflation, public.

Factors/ components/elements/constituents of the economic environment:

i) Growth strategy:

Growth strategy of our country was based on soviet model. It gave CENTRAL ROLE to the government in the control and direction of economic activity. Savings rate and growth rate could be increased if India invested heavily in capital goods sector at the expense of consumer goods sector. State emerged as mobiliser of savings and an investor and owner capital. This strategy resulted in the neglect of agricultural sector.

ii) Basic economic systems:

Capitalism, socialism and communism are the basic economic systems. Capitalism stresses the philosophy of individualism and private property. Socialism proposes the government should own and manage the tools of production. Communism also abolishes private property and property rights to income. It denies individual freedom. **iii) Industry:**

During mid-60's, India was ahead of Asian tigers in respect of industrial base. But the administrative controls held the country behind these Asian tigers. India has potential to become a global player in industrial sector. India has large low-cost and skilled work force. If India were to attain 8% GDP growth rate, industrial sector should overtake services sector. **iv) National income and per capita income:**

Every sector of the economy employs the natural, human and material resources. It contributes to the aggregate flow of goods and services during a year. This represents the total income generated from different factors of production employed. this is called national income. High growth rate in N.I. indicates the economy is a developed one. Low growth rate in N.I. indicates the economy is a developing one.

v) Human resources:

Human resources constitute an important constituent of the total economic environment. People provide ready market for goods produced and services rendered by business units. India has 16% of world's population, but occupies only 2.4% of the total land area. **vi)**

Economic policies:

Economic policies of the government are an important component of economic environment. Industrial policy, trade policy, monetary policy and fiscal policy are the major economic policies of the government.

vii) Financial system:

Money market and the capital market are the two segments of the financial system. Money market refers to the demand for and supply of short-term financial transactions. Unorganized and organised components are found in money market. Capital market is concerned with demand for and supply of long-term funds. **viii) Savings and investment:**

Investment can be undertaken in directly productive activities/ infrastructure. The investment is sustained by an equally high domestic savings rate. **ix) Inflationary trends:**

Persistent and appreciable rise in general level of prices is inflation. A business is adversely affected under inflation. There is a drastic redistribution of income, which reduces the aggregate demand.

x) Balance of payments:

Excessive current account deficit in a country is BOP is not desirable for business activity. Such a situation leads to a shortage of foreign exchange. **xi) Price and distribution controls:**

The dual-pricing mechanism is adopted and public distribution system followed by the government for many years **xii) Globalization:**

The world economy has steadily moved towards an international economic integration since 1950. Since early 1970's, there has been a marked acceleration in the process of international integration. Globalization implies the expansion of economic activities across political boundaries of the nation.

The economic and political changes have occurred in different parts of the world at greater speed.

3. How does the economic environment affect business activities? Or Bring out the interface between business and economic environment? Or Examine the influence exerted by the economic environment on business? Or Describe the impact of economic environment on business activities? Or What is economic environment? How is it important for business?

Economic environment of business refers to all those economic factors, which have a bearing on the functioning of a business unit. The economic environmental factors are numerous. They include:

Growth strategy, economic systems, economic planning, industry, agriculture, infrastructure, financial and fiscal sectors, economic and industrial policies of the government removal of regional imbalances price and distribution controls, economic reforms, human resources, per-capita and national income.

Money supply, price level, population, savings, stages in economic development, trade cycles, GDP, NNP, investment, size and scope of public sector, reservation of industries, balance of payment position, flow of foreign investment, incentives for selected industries/regions, volume of exports and imports, plan outlays, government budgetary allocation, rate of inflation, public.

Impact/influence/interface/effect of the economic environment on business:

- i) The economic environmental factors are more influential. The GNP, savings, investment, size and scope of public sector, the economic policy of the government tax policy, fiscal deficit

policy, interest rate policy, policy on foreign finance for development, trade policy, reservation of industries for SSIs, incentives for selected industries etc., influence businesses vastly.

- II) The economic system, nature of the economy, composition of the economy, functioning of the economy, health of the economy, economic strategy, programmes, procedures adopted, economic controls and regulations economic trends, economic problems and prospects also influence business.
- III) In a capitalistic society, private enterprises develop. In an industrial economy, the economic health is better than in an agrarian economy. Structural pattern and interface among various sectors of the economy are important for business.
- IV) The economic environment consists of macro level factors related to production and distribution of wealth. These factors have an impact on the business.
- V) In countries, where investment and income are steadily increasing, business prospects are generally high. There are possibilities for further investments.
- VI) Economic policy of a government has a great impact on the business. Some categories of the business are favourable by the government policy and some are adversely affected.
- VII) An industry within the priority sector recognised by the government may get a number of incentives. Other industries do not get incentives.
- VIII) Liberalized economic policy has a mixed effect on Indian industry. Some companies benefitted in terms of resulting freedom to alter product-mix and capabilities.
- IX) Public savings in India have been traditionally invested in fixed assets and precious metals. Recent changes in economic and fiscal policies have led to many developments.
- X) Business fortunes and strategies are influenced by the economic policy measures. The general level of development of the economy has a bearing on the nature and size of demand, government policies affecting business etc.

4. Bring out the salient features of BASIC ECONOMIC SYSTEMS?

Political system and business relationship in India:

Political system refers to the set of factors relating to political institutions, the political parties and their ideologies, the form of state governance and the roles of the state and its functionaries vis-à-vis the role of individuals and their organizations. Every country has a political system.

There are different forms of political system-Capitalism, welfare capitalism, socialism, communism and mixed economy. A brief summary of each of the forms is presented below

a. Capitalism:

Capitalism is political economic system. Wherein, private ownership and initiative, individual freedom to produce, exchange, distribute and consume, market mechanism and consumer sovereignty, and limited role of government are found. In short capitalism may be called as 'free enterprise economy', where state control on businesses is nil or minimum.

The features of capitalism are:

1. Private ownership:

Private ownership means business enterprises are owned and run by individuals or group of individuals. Individuals have property rights and own factors of production.

2. Individual initiative:

Individuals use their brain, brawn and bank (that is capital) according to own initiatives and drives. There is no state direction or drive.

3. Free enterprise:

The above two features result in free enterprise. That is people put up businesses to produce goods and services and market the same.

4. Market mechanism:

Market mechanism refers to the power and play of demand, supply, the competition, etc. Demands determine investment avenues and size, demand and supply determine price and profit, the level of competition influences is influenced by all the above referred to.

5. Consumer sovereignty:

In a capitalist society consumer is the king and producers simply serve their consumer masters and in the process make profit.

6. Competition:

Competition among buyers and competition among sellers are the dominant forces in a capitalist society. As competition in a particular segment arises, efficiency of that segment rises. No imperfection is allowed to creep into the system. So, there is all round perfection, quality improvement, innovation etc.

7. Entrepreneurial society:

Capitalist society is actually an entrepreneurial society where entrepreneurs come up in good number and diverse activities are taken up by them.

8. Right to save and invest:

People have the right to save and invest. They can postpone consumption and to that extent they save and the savings can be freely invested adding to their wealth.

9. Central plan is absent:

The government does not plan on what industries, or traders or other economic activities must be taken up by itself or by its citizens. It is a 'laissez faire' system.

10. Bureaucracy is absent:

As there is no government control, there is no intervention of the civil servants of the government. So there is no delay, no red-tape, no corruption, and so on.

Relationship between capitalist political system and business:

The capitalist political system is pro-private businesses. Efficiency is rewarded in the market. Businesses flourish through efficiency, innovation and serving the consumers. Businesses are directed by market mechanism, least influenced by governmental factors.

b. Welfare capitalism:

Capitalism has certain limitations such as neglect of certain business not yielding good profits or those involving greater risk individual 'good'. So, some state role is needed. Here the government intervenes and fills up the gaps to ensure maximum social advantage. Government supplements and does not substitute private entrepreneurs. The characters of capitalism are applicable to this system in total, subject to the above referred to variation. Government relationship with the business takes the same pattern as in the same capitalism, except the government intervenes in a small way to ensure social welfare of people at large.

c. Socialism:

Socialistic political system is characterized by state ownership of production, exchange and distribution. The main features of this system are i) government ownership and/or control of factors of production, ii) government direction of production, exchange and distribution, iii) central planning of resources mobilization, allocation financing iv) left on individual freedom and initiative v) government interference in income distribution, vi) government direction on physical distribution and pricing of products vii) consumer is not the king, only the state is all powerful and so on.

In a socialist political system, businesses are run and/or closely controlled by the state. Businesses are run by bureaucrats and not by people with business acumen. Businesses are distanced from profit goal. State policy determines what industry to be developed and which is not nurtured, sometimes even is curbed. Business is dominated by the government bodies.

d. Communism:

A communist political system is nothing but 100% state control of all human activities. It is also known as state capitalism. Production, exchange, distribution and consumption are all state controlled. The difference between socialism and communism, is that in communism, consumption is also state controlled. Businesses are run almost like government departments. The dominant environment of business is, truly, the government factor.

e. Political system and business relationship in India:

In the preceding pages, we have described different political systems and their implications for business. Now, turn to consider the Indian case.

f. Mixed economy:

In India we adopt the 'golden mean' of capitalism and socialism. Side by side, public and private ownership exist. This system is known as mixed economy. The features of capitalism and socialism are jointly present in this system.

Private initiative freedom of enterprise, consumer sovereignty, individual savings and investment profit orientation and market mechanism are all there. But not entirely free of government control. State initiative, state enterprise, state investment, social objective like equal distribution, balanced development of a regions, concessions and privileges for the less privileged reservations for the benefit of weaker sections, etc. are found.

5. India is a developing economy – discuss

The nature of Indian economy is underdeveloped before the advent of planning. The pace of development has quickened since 1951. The following facts will prove that Indian economy is passing through a crucial phase of economic development. **A) National income trends:**

Over the four and half decades of economic planning, the economy registered significant advance. In 1950-51 India's net national product at factor cost (national income) at 1980-81 prices was Rs. 40,454 crores. Since then it had increased to Rs. 2,71,052 crores in 1997-98. The growth rate of national income is higher than the rate of population. This fact admitted some capital accumulation.

B) Rise in per capita income:

A rise in per capita income is considered to be a better index of growth than the growth of net national product. In 1950-51 India's per capita net national product at 1980-81 prices was Rs. 1,127. Since then it has raised by 145.0 percent and stood at Rs. 2,487 in 1997-98. Economic growth in India during plan period has been both inadequate and erratic. **C) Changing sectoral distribution of domestic product:**

An important index of development is a steady decline in the contribution of agriculture and allied activities to gross domestic product. In 1950-51 the share of agriculture and allied activities in the Gross Domestic Product was 56.5 percent. It was 27.9 percent in 1996-97. The output in the secondary sector accounted roughly 15 percent of the gross domestic product in 1950-51. It stood at 29.3 percent in 1996-97. The share of tertiary sector in gross domestic product was 28.5 percent in 1950-51. It was 42.4 percent in 1996-97. **D) Occupational distribution of population:**

In many occupational distribution of population has not changed significance during plan period. In India where agriculture and allied activities accounted for 68.8 percent of work-force in 1991 as against 72.1 percent in 1951. The census figures in 1981 and 1991 reveal the slight increase in work force participation in the secondary and tertiary sectors. It is 32.2 percent in 1981 and 33.2 percent in 1991.

E) Growth of basic capital goods industries:

During British rule the share of basic and capital goods industries in the total industrial production was nearly one-fourth. From 1956, a large number of basic and heavy industries have been set up to make the country's industrial structure pretty strong. **F) Growth of production:**

The index of agricultural production increased by 100 percent. There is now in evidence much larger area under irrigation, greater use of fertilizers, mechanization and of improved

agricultural practices. Indian agriculture has been greatly stabilized by the adoption of modern technology in farming. India stands out as a third world country which has now achieved selfsufficiency in food grains despite its rapidly galloping population.

	1950-51	1997-98
All food grains	55	193 Million Tones
Area under irrigation	22.56	89(1996-97) Million hectares
Use of fertilizers	70	16500 thousand tonnes
Consumption of pesticides	100 tonnes	73650 tonnes

G) Expansion in social overhead capital:

Infrastructural facilities often referred to as economic and social overheads. Indian planners were fully aware of the link between infrastructural facilities and general economic development. Their development can also assured better human living.

Tremendous amount of progress achieved in the transport, banking, irrigation, education and communications. There has been a spectacular progress in the field of education and public health. The rate of literacy increased to 52 percent of the population. **H) Science and**

technology:

For rapid economic progress the application of science and technology to all economic and non-economic activities has become essential. In 1958 the science policy resolution was adopted to provide positive incentives for the development and utilization of science and technology in nation building activities. In fact, India has at present the third largest pool of scientists, engineers and doctors. India today ranks second in the world as regards qualified science and technology man power. Our achievements in nuclear energy and in space technology have put India in the small select company of scientifically most developed countries.

Thus, it may be concluded that the Indian economy. Is at once an underdeveloped but now a developing economy. Further, the Indian economy during past four and a half decades has progressed structurally. It is on the way to self-generating and self-reliant stage.

6. Describe the characteristic features of India as a mixed economy?

The Indian economy is a mixed economy. It has acquired this form with the growth of a large public sector since independence. Bhabatosh Datta has aptly remarked, "In examining the mixed economy thus introduced, one has to remember that no economy has ever been completely unmixed. Even before independence, India had a fairly important public sector, the most important component of which was the railway system. There may be various grades of mixture between the impracticable extremes of one hundred percent laissez-faire and onehundred percent socialist production." In India, the second five year plan summed up the objectives of the planned development in the phrase 'socialist pattern of society' implying that "the basic criterion for determining lines of advance must not be private profit, but social gain...." And yet the character of the economy that has emerged as a result of planned development does not resemble even remotely socialism. Nationalization of banks, setting up a number of enterprises in the public sector and such other measures may create an illusion that the economy has advanced towards socialism but in fact socio-economic relations have not undergone any such change as to warrant the conclusion that the Indian economy has drifted away from its capitalist form. Sukhamoy Chakravarty made pertinent observation in the mid-eighties, "... as of now, there is no evidence that despite the growth of a large public sector." India has moved to any significant extent closer to a 'socialist society', in any meaningful sense of the term. If the present trends are not going to be reversed, it is possible that India will witness in the closing decade of this century a considerably enlarged private sector with further erosion of the role of planning in the traditional sense of the term. However, in many respects character of the Indian economy has been different from that of the capitalist economies of the eighteenth century Europe. The two factors in the Indian economy, viz., the growth of the public

sector and economic planning made it distinctly different from the capitalist economies of the west in the earlier phase of their development. Some economists taking note of the public sector and economic planning in India's economy prefer to characterize it as state capitalism. In essence, however, state capitalism is the same thing as the mixed economy. We explain below such features of India's economy which determine its character as a mixed economy.

1. Private ownership of the means of production:

Under Indian constitution private ownership of the means of production has been allowed. It is this reason why the private sector in this country remains pervasive. At present a big segment of the industrial sector is in private hands. As a matter of fact, with the exception of some basic industries, all other industries including heavy engineering, electronics, textiles, jute, sugar, cement, leather, vegetable oil, soap, detergents, consumer durables, liquor, etc. are in private sector. Agriculture, the principal economic activity in the country, is also in the private sector as the ownership of agricultural land is entirely personal. These facts suggest that the production in such an economy will be done for the market and the activity of the producers will be motivated primarily by profit. In agriculture, no doubt, small farmers do not have marketable surplus and, therefore, their behaviour as producers is generally not responsive to market changes.

2. Predominance of the market:

Market holds a predominant position in the Indian economy. At present this country has markets for commodities as well as productive factors. In these markets prices are determined by the interplay of demand and supply forces. Business firms guided by the product prices usually decide as to what commodities they will produce. Even the choice of inputs depends on their prices.

However, the market mechanism in India has not been completely free from the state control. In 1951, industries (Development and Regulation) Act was passed to provide a regulatory system for industrial activity in the country. The state had wanted to evolve a licensing system under the provisions of the Act, as an effective instrument of industrial planning. In practice, this objective could not be realized. Jagdish Bhagwati and Padma Desai have extensively analysed the working of the licensing system of India and have noted that the Licensing Committee had not followed any fixed criteria or principle for granting licenses either for establishing new industrial unit or for expanding the capacities of existing units. The approach of Licensing Committee had been generally adhoc. Apart from the licensing system, the government had introduced certain other controls and incentive measures for influencing the decisions in the markets. Among these, most notable were import controls, distribution of essential goods at fair price shops and government purchase of agricultural products at support prices. These controls and incentive measures, however do not alter the basic character of market mechanism. Their importance lies only in their capacity to undermine the irrationality of certain market decisions by changing them for the better. G. Thimmaiah is however, of the view that the license and control system in this country has failed in this direction. Contrary to the expectations of the Indian planners, the private sector could not be made ineffective in its irrational decisions under the license and control system.

3. Monopoly trends:

Since independence, monopoly houses have grown rapidly and with it the concentration of economic power in the country has increased. This trend was first noted by the committee on distribution of income and levels of living chaired by P.C. Mahalanobis. The committee stated in its report, "it is also evident that the working of planned economy has contributed to this growth of big companies in Indian economy." Rapid growth of monopolies in the country was later on confirmed by the monopolies enquiry commission. According to the commission, there were 75 big business houses in 1963-64 controlling 44 percent of the paid up capital of all non-government and nonbanking companies of the country. Since, then monopoly trends appear to have become stronger and the grip of big business on the economy seems to have increased, in spite of the governmental measures to control them. Each of the 4 big business houses in 1998-99 had control over capital assets worth Rs. 15,000 crore or more and assets of two of them viz. Tata and Reliance

were as large as Rs. 47,446 crore and Rs. 33,757 crore respectively. One can have idea of the growth of private monopolies during the 1990s from the simple fact that these big business houses managed to increase their assets by more than three times in a time span of five years.

4. Public sector:

In India, a large public sector co-exists with the private sector and this fact alone is enough to determine the character of the economy as mixed. The creation of a large public sector by the government in this country has not been inspired by any ideological considerations. At the time of independence the private enterprise lacking both resources and will to make heavy investments had expected from the government to develop infrastructure and basic capital goods industries. The government's intervention in the form of expansion of public sector was thus a historical necessity and it did not aim at altering the character of the economy. In India's essentially capitalistic economy, creation of a large public sectors, by no means, a novel experiment. In a number of western countries the state has not only intervened in their economies in a big way but has also engaged itself in various productive and distributive functions. The development role of the state has been more direct and pronounced particularly in those countries where industrialization was somewhat delayed. Therefore, the presence of the public sector in this country or an active role played by the state in promoting the development of the economy provides no guarantee that the character of the economy would not be capitalistic. At best these factors would make it a mixed economy which, in essence, is a variant of capitalism.

5. Economic planning:

Economic planning has been an integral part of the Indian economy since 1951. The nature of planning in India has always been different from the one adopted in former Soviet Union and other East European countries. This country adopted planning while retaining its capitalistic structure, the basic character of the country's economy. Therefore, the character of the Indian economy has not undergone any change since independence. It still continues to be a mixed economy.

The Indian experience shows that the mixed economy framework is a feasible propositions for a developing country as it allows for a modest rate of growth, which is both steady and less subject to fluctuations in the economic activity at the international level. This requires over time substantial growth.

The mixed economy framework in India has tended to favour relatively rich on account of their strong economic position. Suresh D. Tendulkar contends that when the feature of market based decentralized economic activity in the private sector in mixed economy.

7. Write or Attempt short notes on the following: a) Liberalisation b) Globalisation c) Privatisation?

a. Liberalisation :

Liberalization provides freedom to the entrepreneur to enter any industry, produce any product, render any service, earn any amount of money. Liberalization programmes aim at injecting flexibility in place of rigidity of the rules, regulations and procedural issues in various policy measures. Elimination of different kinds of restrictions on trade and industrial activities is the main thrust. The government of India had taken the following measures since July 1991 in the liberalization programmes:

- Abolition of licensing, exception in a few areas.
- Opening up of the basic telecommunication services to private participation including foreign investment.
- Abolition of minimum lending rates for amount exceeding Rs. 2 lakhs.
- Reduction in statutory liquidity ratio to 31.5%
- Announcing 5 year tax holiday to new industrial units set up in industrially backward regions.

- Relaxing the FERA (Foreign Exchange Regulation Act) and introducing the FEMA (Foreign Exchange Management Act).
- Allowing setting up of banks in private sector.
- Reducing the import duties on capital goods to facilitate exports.
- Introducing 5 year export import policy.
- Reforming the customs duties to encourage the exports.
- Granting automatic approval for 100% Export oriented units and units in EPZs / SEZs etc., for export promotion.

b) Globalisation:

Globalization can be simply defined as the expansion of economic activities across political boundaries of the native state. In wider sense, it is a process of deepening economic integration, increasing economic openness and growing economic interdependence between the countries of the world economy.

The term globalization has four parameters:

- Reduction of trade barriers, so as to permit free flow of goods and services across national frontiers.
- Creation of an environment in which free flow of capital can take place among nations.
- Creation of environment permitting free flow of technology and
- Creation of an environment in which free movement of labour can take place in different countries in the world.

The advocates of globalization, more specifically from developed countries, limits the definition of globalization only to first three components. But from the developing countries point of view, the fourth component cannot be left out because the ultimate aim of globalization is to look world as a global village. Hence Deepak nayar puts that "globalization is not only with phenomenal spread and volume of cross boarder economic transactions but also with an organization of economic activities which straddle national boundaries."

Kawaljit Singh in his book, 'A citizens guide to the globalization of finance' has given some important characteristics of globalization. They are:

- Rapid growth in international financial transactions.
- Fast growth in trade, especially among Multinational Corporations (MNCs).
- Surge in foreign direct investment, largely contributed by MNCs.
- The emergence of global markets and
- The diffusion of technologies and ideas through rapid expansion of globalised transportation and communication system

c) Privatisation:

Privatization may be understood as the process whereby activities or enterprises that were once performed or operated by the Government and its employees are now performed, managed or owned by private business and individuals, often with much better results in terms of cost and quality of service. Privatization achieves these results by replacing government monopolies with the competitive pressures of the marketplace to encourage efficiency, quality and innovation in the delivery of goods and services.

Replacement of government monopolies by the market forces is often effected by the salefull or partial-of ongoing PSUs or by the sale of their assets following liquidation, sale of the business or of its assets has been the most widely employed and debated form of privatization and this is the option that is stressed in this chapter. The other techniques of privatization are contracts, leases and

concessions. In these three techniques of disinvestment, only the management of PSUs is privatized but not their ownership.

The basic objective of privatization everywhere is to improve the performance of PSUs so as to lessen the financial burden on tax payers. The other objectives aim at increasing the size and dynamism of the private sector, distributing ownership more widely in the population at large; encouraging and facilitating private sector investments, from both domestic and foreign sources; generating revenues for the state; reducing the administrative burden on the state; and in the case of the former socialist countries-launching and sustaining the transformation of the economy from a command to a market model. Popularization of the private sector too is an objective of privatization.

Privatization routes:

Privatization is sought to be achieved through any or more of the four important routes: **a.**

Sale to outsiders:

This involves the sale of state enterprises, case by case, as going concerns to outsiders. Popularly called disinvestment of shares, this has been the best-known model, which had been very successful in established market economies like in UK and in developing countries like Chile. Sale to outsiders has been favoured as it fetches revenue and turn the firm to the real owners who possess the expertise and incentives to govern the company efficiently.

Sale to outsiders has largely fulfilled expectations about performance improvements. But the route is costly and slow and far more difficult to implement. Lack of adequate domestic capital, resistance from managers and employees and difficulty of evaluating and negotiating deals make this route difficult to follow.

b. Management-employee buy-out:

Management-employee buy-out is a widely used alternative to sale, notably in Croatia, Poland, Romania and Slovenia. Buy-out is relatively fast and easy to implement both politically and technically. The route may lead to better corporate governance as insiders have better access than outsiders to information needed to monitor managers.

There are disadvantages however, one disadvantage is that the benefits are unevenly distributed; employees in good firms get valuable assets while those in money-losers get little or nothing of value. Another disadvantage is that the governments typically charge low prices to insiders and thus realize little revenue. Insiders do not bring in new skills and new capital. There could be managerial and worker entrenchment that might block further reforms.

c. Equal-access voucher privatization:

A third form of privatization distributes vouchers across the population and attempts to allocate assets approximately evenly among voucher holders. Such programmes excel in speed and fairness. But they raise no revenue for government and they have unclear implications for corporate governance. Mongolia, Lithuania and the former Czechoslovakia were the first to implement this route to privatization.

d. Spontaneous privatization:

This route to privatization is easy, obstacle-free, with no revenue generation for the government and has doubtful impact on corporate governance. Small firms lend themselves to this type of privatization Russia has divested most of its small units through this route. So is the case with Czechoslovakia, Hungary and Poland.

8. Give an account of New economic policy/structural adjustment programme?

Since July 1991, the government of India has initiated a series of radical changes/reforms in its policies relating to industrial, trade, financing, foreign investment and fiscal aspects. All these changes in the economic policies are known as the STRUCTURAL ADJUSTMENT PROGRAMME (SAP). It is also known as NEW ECONOMIC POLICY (NEP).

History of economic crisis:

The NEP is necessitated by the worst economic crisis in the country.

- a. The major economic crisis was extremely low foreign exchange reserves of Rs.2400 crores in early 1991. These reserves were just enough to pay for 3 weeks import requirements. This came to be known as Balance of payment crisis.
- b. The situation became even more dangerous when international agencies lowered country's credit-rating.
- c. The third major aspect of the economic crisis was rapidly increasing burden of national debt exceeding 60% of GNP in 1991.
- d. The fiscal deficit of the previous 5 years forced the government to borrow increasingly to meet short fall in revenue account. Borrowing added to the already prevailing debt-burden.
- e. The next damaging feature on 1991 crisis was the high price-level. During 1985-90, the GDP grew at an average rate of 5.7% but money supply increased at 15.7% p.a. This excess liquidity led to high price-rise, which touched 17%

In order to save our economy from worst-ever economic crisis, the then PM late Sri P.V. Narasimha Rao congress-led government announced NEP/SAP. This includes a number of economic reforms, called as REFORMS-REGIME.

NEP/SAP – main objectives:

As part of the budget of 1991-92, the government announced a number of economic reform measures. The main objectives of the NEP were:

- ★ Reducing the government deficit to 6.5% of GDP in 1991-92 and 5% in 1992-93, with further reduction leading to controlling the inflation.
- ★ Reducing the current account deficit in the BOP to 2.7% of GDP in 1991-92 and to 1.5% by 1995-96 as a result of export growth.
- ★ Raising GDP growth to around 6% by mid 1990's

Components of NEP/SAP:

The four important components of the new economic policy aim at economic reforms in the country. These four components of LPGs:

A. Liberalization:

Liberalization provides freedom to the entrepreneur to enter any industry, produce any product, render any service, earn any amount of money. Liberalization programmes aim at injecting flexibility in place of rigidity of the rules, regulations and procedural issues in various policy measures. Elimination of different kinds of restrictions on trade and industrial activities is the main thrust. The government of India had taken the following measures since July 1991 in the liberalization programmes:

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Replacement of government monopolies by the market forces is often effected by the sale-full or partial-of ongoing PSUs or by the sale of their assets following liquidation, sale of the business or of its assets has been the most widely employed and debated form of privatization and this is the option that is stressed in this chapter. The other techniques of privatization are contracts, leases and concessions. In these three techniques of disinvestment, only the management of PSUs is privatized but not their ownership.

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The advocates of globalization, more specifically from developed countries, limits the definition of globalization only to first three components. But from the developing countries point of view, the fourth component cannot be left out because the ultimate aim of globalization is to look world as a global village. Hence Deepak nayar puts that "globalization is not only with phenomenal spread and volume of cross boarder economic transactions but also with an organization of economic activities which straddle national boundaries." **D. Stabilisation:**

Stabilization refers to the stability in the economy. It refers to :

- ★ Bringing down the price level from 14% to single digit
- ★ Avoidance of fiscal deficit

- ★ Supply of food stocks through the public distribution system
- ★ Avoiding wasteful expenditure

E. Financial sector:

Financial sector reforms like curtailing the deficits, deflationary monetary and fiscal policies, inducing FDI, regulation of interest rates, credit policy reforms, reforms in capital market, tax reforms are also a component of NEP/SAP

9. How far the NEP or SAP succeeded or failed? Discuss or Evaluate New Economic Policy/structural adjustment programme?

Since July 1991, the government of India has initiated a series of radical changes/reforms in its policies relating to industrial, trade, financing, foreign investment and fiscal aspects. All these changes in the economic policies are known as the STRUCTURAL ADJUSTMENT PROGRAMME (SAP). It is also known as NEW ECONOMIC POLICY (NEP).

Evaluation of NEP/SAP:

In order to evaluate the new economic policy. We have to answer two important questions:

1) Is the NEP unavoidable?

The answer is Yes. Our economy was caught in problematic situation during the late 1980s and early 1990s. The NEP was a felt need to restore fiscal balance, to infuse dynamism, to foster competition and to increase outward looking orientation.

2) What are the achievements and failures of NEP?

- (a) The results have been quite encouraging. After introducing NEP/SAP, the economy recorded a growth rate of 6.8% in 1996-97. Industrial growth registered a growth around 8% p.a.
- (b) Exports have grown comfortably. Foreign investments inflow has been very good. Price level has come down to 8%
- (c) Our economy has become vibrant. Industry is not worried by the entry of MNCs
- (d) There is an overall increase in productivity, quality and competitiveness of Indian goods and services.
- (e) The NEP has unshackled our economy, which has been under the grip of controls for nearly 4 decades.
- (f) Our economy has absorbed the shocks with remarkable growth-outlook. It is looking ahead for more reforms.
- (g) All political parties, irrespective of their ideologies, have forged ahead with economic reforms.

The above answers support that the measures/reforms envisaged in NEP/SAP have done good for our economy.

However, there are certain problems on implementing the NEP/SAP, as detailed below:

- (A) Pace of economic reforms slowed down from 1994 onwards. Elections to several state assemblies were held in 1994. Main concentration was on “populist measures” like Rs. 2

per kg rice in our state, subsidies and poverty alleviation programme. This led to sidelining the reforms in NEP/SAP.

- (B) Except the states of Haryana, Kerala, Orissa, Punjab, Rajasthan, West Bengal and Maharashtra; the other states have not responded favourably to economic reforms. It is difficult to carry out reforms successfully without active support from state governments.
- (C) The economic reforms have hit the labour hard. PSUs and private enterprises resorted to VRS (Voluntary Retirement Schemes) to get rid off surplus labour. Labour is hurt on employment sector also. Economic reforms seems to have failed in generating additional jobs.
- (D) The success of economic reforms is exaggerated. Nothing substantially changed, when compared to pre-reform days. Share of manufacturing, for example, was 27.5% in 1989-90. It was slightly less at 27.3% in 1994-95. Share of agriculture from 33.7% in 1989-90 to 31.5% in 1994-95.
- (E) The central government's fiscal deficit continues to be high due to inflationary pressure.
- (F) The process of reforms is not complete even though the reforms are more than a decade-old.
- (G) In today's increasingly open and competitive international environment, perceptions of weaknesses in macro-economic policy adversely affects the flow of foreign exchange.

10. What is Fiscal policy? What are its objectives?

Fiscal policy refers to the policy of the government regarding taxation, public expenditure and public debt. Fiscal policy is that part of the government policy, which is concerned with raising revenue through taxation and other means. It is related to deciding the level and pattern of expenditure.

Union budget:

The fiscal policy operate through budget. Budget is an estimate of government expenditure and revenue for the financial year. The budget is presented to the parliament yearly by the Union Finance Minister.

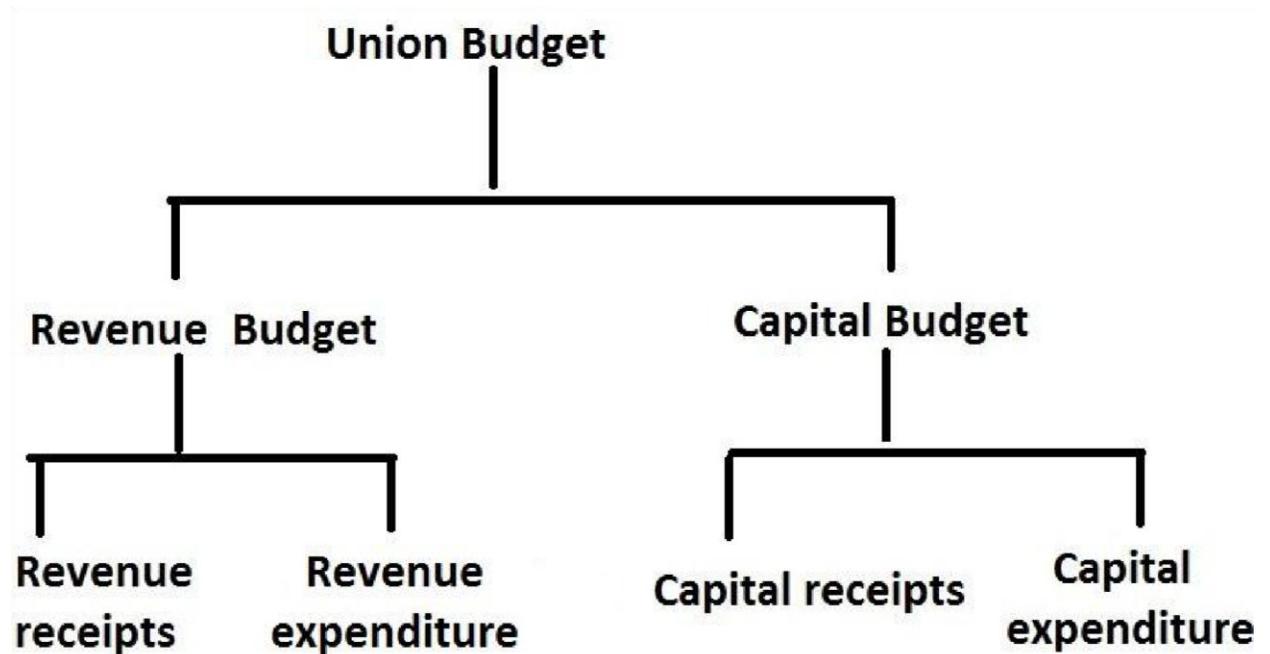
Budget approval is a big exercise without budget, no tax can be levied, no expenditure can be incurred and government can spend only on approved items.

State budget:

Every state government also prepares and presents a budget in the state assembly. According to the provisions of the constitution, our central government and state governments have been preparing annual budgets. They are placed before parliament. And respective state assemblies every year. The budgets are approved. The governments spend and raise revenues as stipulated in the yearly budgets.

Components of union budget:

Budget can be divided into revenue budget and capital budget. It is shown in the below chart:



Revenue Budget:

It deals with revenue receipts and revenue expenditure. Revenue receipts include receipts from taxes, interest receipts and dividends and profits. Revenue expenditure is mainly on government administration.

Capital budget:

Statement of all capital expenditure and capital receipts. Capital receipts include market loans, external aid, deposits and provident funds. Capital expenditure includes payment for imports, external debt-servicing etc.,

Objectives of Fiscal policy:

Taxation, public expenditure, government borrowing and deficit financing are used to:

1. Accelerating the rate of investment
2. Promoting socially desirable investment
3. Achieving rapid economic development
4. Achieving full employment
5. Promoting foreign trade
6. Reducing inequalities of income, and
7. Establishing a welfare state.

Influence / impact / evaluation of fiscal policy:

- a. The government influences business activities through fiscal measures.
- b. All the governments the world-over use fiscal policy measures to regulate their economic activities in order to achieve the above-said objectives.
- c. Post-liberalisation witnessed significant developments (a) Tax structures and tax levies are simplified (b) Better tax administration and (c) Long term fiscal policy measures.

The effectiveness of our fiscal policy is assessed from the following three angles:

First, fiscal policy and savings and capital formation: Fiscal policy has failed to produce enough-savings for public investment.

Second, fiscal policy and economic inequalities: Over the years, the gap between the rich and poor has widened.

Third, fiscal policy and inflation control: Fiscal policy has been successful in controlling inflation. Rate of inflation stood at around 5% during the last two/three years.

- Fiscal policy contributes to the acceleration of economic growth. It increases the rate of investment through public expenditure.
- Taxation and public expenditure play an important role by directing resources from unproductive channels to useful capital-formation.
- Fiscal policy, along with other policy tools, play an important role in achieving the development goals.

11. Define monetary policy? What are its objectives? What are the methods of credit control and evaluation of monetary policy?

Monetary policy is a policy statement, through which the Reserve Bank of India targets a KEY-SET of indicators to ensure price stability. These KEY-SET of indicators are:

- a. Money supply
- b. Interest rates, and
- c. Inflation

The RBI announces monetary policy bi-annual.

Interpretations of Monetary policy:

The Monetary policy has 2 interpretations:

a. Broader sense:

Monetary policy refers to all those measures (monetary and non-monetary) taken by the government. It influences the cost and supply of money.

b. Narrower sense:

Steps taken by the Reserve Bank to regulate the cost and supply of money and credit.

Objectives:

- a) To stabilize prices
- b) To provide full employment
- c) To foster economic growth
- d) To regulate the supply of money

Extent of money:

Before introducing the measures for the expansion and contraction of money supply, the RBI measures the extent of money and credit available in the economy. M1 to M4 are the indices used by RBI to measure the supply of money at a given point of time.

M1 = Money supply with public

$M2 = M1 + \text{post office savings and bank deposits}$

$M3 = M2 + \text{Time deposits of public with banks}$

$M4 = M3 + \text{Total post office deposits}$

M1 is called 'narrow money'. M3 is called 'broad money'

RBI's monetary policy:

It has been described as the controlled-expansion one.

Expansion of money:

Money is pumped into the economy through the a) issue of currency by RBI b) Budgetary operations of the Government and c) borrowings by the government from abroad.

Contraction of money:

Unlimited expansion of money and credit results in hyper-inflation. Hyper-inflation hits all sections of society. RBI has a responsibility to ensure that money supply is within manageable limits. For this purpose, RBI uses different control measures called as "CREDIT CONTROL MEASURE."

Credit control measures:

Steps/measures used by the RBI to control the credit fall into the following two categories: **A.**

General credit controls:

Bank rate, open market operations, variation of cash reserve ratio and statutory liquidity ratio are called general credit controls. They affect total quantity of credit.

Bank rate:

Bank rate is called as discount rate. It is the rate at which RBI rediscounts or lends money to commercial banks. During inflation, bank rate is increased so that the banks increase the interest rate on borrowing. Borrowers feel bank loans are costly and discouraged to borrow. Money supply expands.

During the period of deflation, the RBI reduces bank rate. Borrowers feel decrease the interest rate. Borrowers feel bank loans are cheap and encouraged to borrow. Money supply contracts.

Open market operations:

Purchase and sale of securities, foreign exchange and gold by the government is called open market operations. Purchase of securities and gold from the public leads to expansion of money. Sale of securities and gold to public leads to contraction of money.

Variation of cash reserve ratio (CRR):

It is the percentage of cash maintained by the commercial banks with the reserve bank of India. RBI varies CRR between 3% to 15% of time and demand deposits. When RBI raises CRR, banks are supposed to increase the amount of deposits with RBI. As a result, money supply is contracted. When RBI decreases CRR, banks decrease the amount of deposit with RBI. Therefore, more money supply.

Statutory liquidity ratio (SLR):

In addition to CRR, commercial banks should keep a certain percentage of its total demand and time deposits with RBI in liquid assets such as cash, gold, etc., when SLR is raised, money supply contracts and vice versa.

Liberalization of the bill market scheme:

Under this, commercial banks get additional finance from RBI with additional funds at their disposal, commercial banks will be able to advance further credit.

B. Selective credit controls:

- RBI insists on the banks to fix minimum margins for lending against specific securities.
- Fixing a quota/ceiling on the amounts of credit for certain purposes.
- Charging discriminatory rates of interest on certain types of advances.
- Moral suasion- RBI issues circulars to the banks to exercise control over credit.
- Direct action- RBI takes action on the banks, that do not obey the instructions given by the RBI.

Evaluation of the impact / influence of monetary policy:

Monetary policy is of greater importance now-a-days. Government depends more on monetary policy to regulate the economy.

Strengths of monetary policy:

- Decision-making and implementation is faster than fiscal policy.
- RBI relied more on selective credit controls and less on quantitative controls. Thus, the monetary policy brought less pressure on the banks.
- Monetary policy has been responsive to the needs of economy.

Weaknesses of monetary policy:

- It is said that the RBI has failed in expansion and control of money and credit. Major component of the increase in money supply was the RBI credit to central government.
- It is said that the monetary of RBI did not play effective role in controlling the inflation.
- Central government opened flood gates of monetary growth. It asked RBI to plug small banks.
- RBI cannot cover the operations of non-banking financial institutions.
- The powers and weapons of the RBI cover only the commercial banks. RBI control measures do not have any effect on the inflationary pressures brought out by the deficit financing and shortage of goods.

12. Examine the salient features of the New Industrial policy – 1991?

Industrial policy is an important document. Industrial policy displays the implementation of government's regulatory and promotional roles. Industrial policy refers to the government policy towards the establishment, functioning, growth and management of the industries. Industrial policy speaks on the aspects of foreign capital, labour, tariffs, and other related aspects. Industrial policy has no legal sanction. Its violation cannot be challenged in a court of law.

The first industrial policy resolution was issued by the government of India on April 6, 1948. This was known as the first industrial policy 1948. The features of the policy:

- Dual role of public and private sectors.
- Division of industries.
- Importance of small and cottage industries. ➤ Importance of foreign capital.

Industrial policy 1956:

On April 20, 1956 the government of India adopted another Industrial Policy Resolution which replaced the 1948 resolution. The new resolution had become necessary due to the changes and developments that had taken place during eight years. After completion of first five year the government was introduced the second five year plan for the sake of industries. The target of investment in heavy industries and mining fixed at Rs.890 crores.

The features of industrial policy 1956:

- Accelerating the growth of economy and speeding up industrialization
- Expansion of the public sector development of heavy and machine making industry.
- Increase employment opportunities, improvement of living standards and working conditions.
- Prevention of monopolies and concentration of economic power.

This policy divided industries into FIRST SCHEDULE (17 industries), SECOND SCHEDULE (12 industries) and THIRD SCHEDULE (remaining open to private sector).

Industrial policy 1991/ New industrial policy:

On July 24,1991 the government of Sri Late P.V. Narasimha Rao announced a new industrial policy. Several new departures in the new policy:

- a. Scrapping of industrial licensing and registration
- b. End to monopoly law
- c. A more welcoming approach to foreign investments and
- d. Redefining the role of public sector.

Objectives:

- Unshackle the Indian industrial economy from unnecessary bureaucratic controls.
- To correct the distortions or weaknesses involved in the policy.
- To abolish restrictions on direct foreign investment.
- To liberalise home industry from restrictions of MRTP Act.
- To maintain a sustained growth in productivity. □ To reduce the load of public sector enterprises.

Features:

- **Abolition of industrial licensing:**

In order to liberalise the economy and to bring transparency in the policy, the new policy has abolished the system of industrial licensing except 18 industries. The industries under licensing are coal and liquate, petroleum and its distillation products, distillation and brewing of alcoholic drinks, sugar, animal fat and oils, cigars and cigarattes of tobacco and manufactured tobacco substitutes, asbestos, plywood and other wood products, raw hides and skins, leather and other leather products, motor car, paper , hazardous chemicals, drugs and pharmaceuticals, entertainment electronics etc.. These items are in small scale sector.

- **Role of public sector:**

The public sector enterprises were not showing good results inspite of huge investments. The new policy reduced the list of industries from 18 to 8 reserved for public sector. The industries are i) arms and ammunition ii)atomic energy iii) coal and lignite iv) mineral oils v) mining of iron ore, managanese ore etc. vi) mixing of copper, lead, zinc, tin etc. vii) minerals specified in the schedule to the atomic energy viii) rail transport. In 1993 the government

reduced the reserved industries from 8 to 6 and in May 2001 even arms and ammunition sector was opened to private sector. Now there is only 3 industries reserved for public sector.

- **Concessions from monopolies act:**

The new policy states that the pre-entry scrutiny of investment decisions by so called MRTP companies will no longer be required. It was not necessary to obtain approval of the centre for expansion, establishment of new undertakings, merger, amalgamation and take over and appointment of directors under certain circumstances. The emphasis now will be placed on controlling and regulating monopolistic restrictive and unfair trade practices.

- **Foreign investment and technology:**

The new policy prepared a list of 34 industries where automatic permission will be available for direct investment up to 51 percent foreign equity. The industries included in this list were metallurgy, boiler and steam generating plants, electrical equipment, telecommunication, transportation, industrial and agricultural machinery, chemicals, hotels, tourism industry etc. automatic permission will be given for foreign technology agreement. In some sectors the FDI's could go to 100 percent in 1997-98 but it was permitted in 2000-01. The business are pharma sector, airports, hotel and tourism industry, courier services and mass rapid transport system and internet service providers etc.. □ **Location policy liberalised:**

The new policy mentioned that in location other than cities of more than 10 lakh population no industrial approvals from the centre will be required except industries subject to compulsory licensing. However electronics, computer software and printing industry may be located within 25KM on periphery. Amendment in location policy was made during 1997-98.

- **Abolition of phased manufacturing programmes:**

In order to increase indianisation, a phased manufacturing programme was enforced earlier. The new policy has totally abolished such programmes as the government feels due to substantial reforms of trade option policy and devaluation of rupee there is no need to reforce such programme.

13. Critically assess the impact of New Industrial Policy on Indian business? Or Make an appraisal on the New Industrial Policy 1991?

Introduction

India is developing country. It has been implemented five industrial policies like industrial policy 1948, 1956, 1977, 1980 and 1991 and twelve five year plans. This all has been done after recognising the India's economic condition. But actually as compare to the rate of population of India the economic development of India is not measurable. Before new economic policy-1991 of India means before Liberalization, Privatization and Globalisation Industrial policies and five years plans were not that much helpful to Indian economic development. Generally we called it as Globalisation and it helped to reform Indian economy too much. Why we are going to discuss these things today because India, today has accounted for the 16.67% of the global population as compared to china with 21.37%. India has over 1.06 billion people which is more than the total population in the continent. Every 6th individual on the earth is an Indian. Out of the total 70% of the country's population are villagers. India's GDP has gone up well during the recent past. On the other hand 38% of India's households are still living in single room dwelling. Actually India is youngest country in the world more than 50% people are below the age 25 at least. But unfortunately poverty line of India is still very high near about 350 million people come under this. If government wants to change the mind sets, attitude and this situation it must undertake entrepreneurial activity with the help of

Globalisation and its policies related to industrial development at all. Therefore the situation of nation will overcome the problems which are arising present and in the future time. The economist and Noble prize winner Mohamad Yunus has rightly said that "Poverty is a threat to peace" and the frustrations, hostility and anger generated by object poverty cannot sustain peace in society in the world. Actually if we want to see the change in near future first of all we should have to understand impact of LPG policy on Indian economy.

Impact of Liberalisation on Indian Economy

- The low annual growth rate of the economy of India before 1980, which stagnated around 3.5% from 1950's to 1980's which per capital income averaged 1.3%. At the same time Pakistan grew by 5%, Indonesia by 9%, Thailand by 9%, South Korea by 10% and in Taiwan by 12%.
- Only four to five licenses would be given for steel, Power and communications, license owners built up huge powerful empires.
- A huge public sector emerged. State owned enterprises made large losses.
- Infrastructure investment was very poor because of the public sector monopoly. License Raj established the „irresponsibly self perpetuating bureaucracy that still exists throughout much of the country“ and corruption flourished under the system.

Impact of Privatisation on Indian Economy

- It frees the resources for a more productive utilisation.
- Private concerns tend to be profit oriented and transparent in their functioning as private owners are always oriented towards making profits and get rid of sacred cows and hitches in conventional bureaucratic management.
- Since the system becomes more transparent all underlying corruption are minimised and owners have a free reign and incentive for profit maximisation so they tend to get rid of all free loaders and vices that are inherent in government functions.
- Gets rid of employment inconsistencies like free loaders or over employed departments reducing the strain on resources.
- Reduce the government's financial and administrative burden.
- Effectively minimises corruption and optimises output and functions.
- Private firms are less tolerant towards capitulation and appendages in government departments and hence tend to right size the human resource potential befitting the organisations needs and may cause resistance and disgruntled employees who are accustomed to the benefits as government functionaries.
- Permit the private sector to contribute to economic development.
- Development of the general budget resources and diversifying sources of income.

Impact of Globalisation on Indian Economy

The following achievements have been claimed especially on the external front:

- India's share in the world trade which had fallen 0.53% in 1991 from 178% in 1950 has been reversed trends and has improved to 0.86% in 2003.
- Our foreign currency reserves which had fallen to barely one billion dollars to June, 1991 rose substantially to about 141 billion dollars in March, 2005.
- Exporters responding well to sweeping reforms in exchange rate and trade policies. This would be clear from the fact that as against a fall in the dollar value of exports by 1.5 % in 1993-96. However, export growth slowed down during 1996-2002. The annual average growth rate during this period was around 8%. Since 2002-2003 however, exports have picked up once again. The average growth of export has been around 10% per annum during 1992-2004.
- Exports now finance over 80% of imports, compared to only 60% in the latter half of the eighties.
- The current account deficit was over 3% of GDP in 1990-91. It has fallen to less than 1% in 2000-01. During 2001-03 we even had surplus in current account ranging between 0.7-1.08 percent of GDP.
- At the time of crisis, our external debt was rising at rate of ₹8 billion a year, after that its growth has been arrested. From 1996-2003, it grew only by less than ₹3 billion %.
- Contrary to what many feared, the exchange rate for the rupee has remained almost steady despite the introduction of full convertibility of rupee.

- International confidence in India has been restored. This is indicated by swelling foreign direct and portfolio investment. FDIs were just 155 million dollars in 1991. They increased to around 3200 million dollars in 2004-05.
- Certain benefits of globalisation have accrued to the Indian consumer in the form of larger variety of consumer goods, improved quality of goods and in some cases and reduced prices of consumer durable.
- Markets have started responding to the movements abroad. A fluctuation in U.S. market or U.K. market has started affecting Indian market. Unlike before, SENSEX and other parts of the globe.
- The rating agencies, which rate investments risks in countries for global investors, have upgraded India's rating.
- Programmers of quality management and research and development are systematically conducted by corporate sector.

Conclusion

The main purpose of this research paper is to identify and analyze the impact of globalization on the Indian economy. It also helped to determine the positive and negative impacts on globalization. It also pointed out that globalisation policy is not a free lunch. Globalised economies of outwardly oriented economies tend to perform well during a period of dynamism and high growth in the world economy whereas they are prone to severe dislocation and collapse during a downturn in international economic activity. On the contrary internal oriented economies are likely to be less damaged by the slowdown in world trade.

14. What are the objectives of EXIM policy? State the provisions of EXIM policy?

The export import policy, also known as trade policy, with radical departure, was introduced for five years (1992-97). Earlier, the EXIM policy had a period of one year with amendments. Since liberalization, it came to be called as 5-year trade policy. For the first time, the EXIM policy came into force from 1-4-1992. It extends to 31-3-1997. Subsequent amendments were made in the years 2002, 2004 and the latest EXIM policy extends upto 2009.

Objectives:

The principal objectives of this policy are as follows:

- a) To accelerate the country's transition to an internationally oriented economy with a view to derive maximum benefit from the expanding global market opportunities.
- b) To augment the productivity, modernization and competitiveness of Indian agriculture, industry and services and thereby to enhance their export potential and capabilities.
- c) To encourage the attainment of internationally accepted standards of quality and thereby improve the image of India's products abroad;
- d) To stimulate India's exports by facilitating access to required raw materials, intermediates, components, consumables and capital goods from the international market;
- e) To encourage efficient and internationally competitive import substitution within the liberalized framework of foreign trade;
- f) To impart greater transparency in the export-import policies and eliminate or minimize quantitative restrictions, licensing and other discretionary controls;
- g) To strengthen and stimulate the country's research and development (R&D) capabilities;

- h) To conserve the forests and wildlife of India and assist efforts towards the preservation, protection and promotion of a healthy eco-system for ensuring balanced and sustainable development; and
- i) To simplify and streamline the procedures governing exports and imports.

General provisions regarding exports and imports:

1. Exports and imports may be done freely unless regulated through the negative list restricted through licensing and canalised

a. Negative lists:

Export items:

Wild animals, oils and fats, beef, human skeleton, sandal wood excepting fully finished handicrafts and machine made products, certain wood, wood products and certain chemicals.

Import items:

Animal fats, wild animals and their parts

b. Licensing:

Export items:

Cattle, camel, fertilizers, skins of animals, industrial leather and paddy.

Import items:

Consumer goods, timber-logs, computer software, children films, homeopathic medicines, news magazines, news papers etc.,

c. Canalising:

Export items:

Petroleum products, mineral-ores and onions.

Import items:

Petroleum products, vegetable oils, coconut-oils.

2. Capital goods, raw-materials, intermediaries, spares, other goods which are not regulated by negative lists.
3. All second-hand capital goods having a minimum residual life of 5 years may be imported by actual users without license
4. Capital goods including aircraft, its components, spare parts may be sent abroad for repairs testing, quality improvement, upgradation of technology without license.
5. After completion of projects abroad, project contractors may import the used equipment, machinery without license.
6. Bonafide household goods and personal effects may be imported as a part of passenger's luggage.

Import facilities for exporters:

Government facilities exports through Duty Exemption Scheme (DES) and Export Promotion Capital Goods Scheme (EPCG)

1. DES:

Under duty exemption scheme, import of raw-materials, spares, parts, packing material and computer software required for the product to be exported, may be permitted duty-free. This is subject to specific export obligation under various licenses.

2. EPCG:

Manufacturers-exporters, merchant exporters and service-providers are eligible for import of capital goods at concessional rates of import-duty. 15% of CIF value or zero duty, if CIF value exceeds Rs. 20 crores.

3. Deemed exports:

Deemed exports are those transactions in which the goods supplied do not leave the country. The payment is received by the supplier in India. Eg: supply of goods by an Indian firm against licenses issued under the D.E.S

4. EPZ/EOU/SEZ schemes:

The export processing zones are the exclusive industrial estates, defined from the customs-boundary of the country. They are established by the government of India in association with the respective state governments to promote the exports of manufactured goods. India has seven EPZs at Kandla(Kandla Free Trade Zone, Gandhidam, Gujarat, 1965); Santacruz(Santacruz Electronics Export Processing Zone, Mumbai, 1974); Noida (Noida Export Processing Zone, Noida ,1984 up); Falta (Falta Export Processing Zone, Falta, West Bengal, 1984); Cochin (Cochin Export Processing Zone, Cochin, 1984); Madras (Madras Export Processing Zone, Madras, 1984) and Visakhapatnam (Visakhapatnam Export Processing Zone, Vizag, AP, 1984). Government of India allows incentives (fiscal and financial) and physical infrastructure is provided to the units established in these 7 EPZs

The EOU scheme known as 100% Export Oriented Units scheme is similar to EPZ scheme, but with a difference. An EOU is established anywhere in the country. Both EPZ/EOU schemes demand the units to fulfill value addition and export obligation norms.

The special economic zone-SEZ scheme is very latest one on the line of Chinese SEZs. Most of the EPZs are converted into SEZs in addition to a number of SEZs in private sector.

Unit –IV

SOCIOLOGICAL AND CULTURAL ENVIRONMENT

1. What do you mean by sociological and cultural environment? What are its components and explain the features of cultural environment?

Sociological and cultural environment refers to the influence of the sociological factors. These factors are beyond the capacity of the company. People's attitude towards the role of family, marriage; role of women in the society; cultural aspects in the society; the education level of people; the ethical issues involved; social responsiveness are some of the components of sociological and cultural environment. Every business unit is a social organization functioning within a society. Business unit draws resources from the society. In turn, the business unit provides goods and services to the society. Activities of the business are very much connected with societal needs. Socio-cultural environment is highly relevant for a business unit. The reason is the variety of goods

produced, the type of people it gets and its social obligations depend on the cultural milieu in which the firm operates.

Components:

1. Social norms:

Standards of behaviour. Norms define the boundaries between acceptable and un acceptable behaviour. Eg: Dress norms, hospitality norms, religious norms are followed in social life. These are called social norms. Social norms influence people's material needs.

2. Gender roles:

Social attitude towards gender-roles speak-out difference between males and females. Of late, there is a change in gender-role. The difference is slowly disappearing. Women are not confined to doors. They are shouldering greater responsibilities on par with males.

3. Family structure:

In some societies "father" is head; in some others "mother" is the head of their families. In joint families "elder" heads the family. Purchase decisions, resource allocation decisions are taken by the head of the family.

4. Material aspects:

Include money, precious materials, gadgets, houses, ornaments, vehicles, estates, properties, fixed deposits etc., by and large Indian society is not very much after material wealth. But in the recent past, material possessions are valued.

5. Spiritual aspects of life:

Our country is a land of spirituals, land of gods, religious rituals and so on. Positive attitude towards spiritual aspects of life is deep-rooted in our society.

6. Religion:

Social attitude towards religion is widespread. Irrespective of religious-path, every person performs his/her rituals to seek divine blessings. Tolerance for other religious is practical.

7. Technology:

Indian society has been slow on technology adaptation and absorption. But now, there is a social change, that is pro-technology. Every society has a technological dimension. This changes quite often.

8. Aesthetics:

Sense of admiration and appreciation of finer-points of beauty. Design-cut-shade-colour and other outward features are receiving admiration and attention.

9. Education:

Education is very much valued by the society. Knowledge is power. Education explosion is taking place. Formal and non-formal education systems are getting prominence.

10. Politics:

Eradication of political ills and efforts in that direction are good politics. In our country, most of the intellectuals avoid politics.

11. Recreation:

Recreation is re-energizing. Leisure and recreation industry, such as tourism, entertainment are getting prominence in our society.

12. Ameliorative interests:

“To give” to the deserved is a good cherished value and goal. Social attitude towards ameliorative interest is generally positive in our country.

13. Science:

Indian society is becoming a scientifically advanced society. We continue value science a truth. Science has been our pursuit, right from the past.

14. International community:

Indian society underlines the concept of global cooperation in all walks of the humanity. We are members and we contribute to global prosperity.

Cultural environment:

Cultural environment refers to the influence exercised by certain social factors, which are beyond the company's gate such factors include, among others, attitude of people towards work, attitude to wealth, family, marriage, religion, education and ethics.

Features, nature and characteristic of culture:

- ★ Culture is the human product of social interaction.
- ★ Culture provides socially acceptable norms and patterns for meeting biological and social needs.
- ★ Culture is cumulative. It is handed down to generation from generation.
- ★ Culture is meaningful to human beings due to symbolic qualities.
- ★ Culture is learned by each person in the course of his/her development in a society.
- ★ Culture is a basic determinant of personality.
- ★ Culture is dependent on society. It is independent of an individual.

Components:

1. Customs:

Customs are habits. These are learnt socially; shared and transmitted from generation-to-generation. Customs are of three types : actional-representational and mental

2. Knowledge and beliefs:

Knowledge refers to the level of understanding of people of “reality”. Beliefs refer to people's notions about reality. Eg: Incertain sections of Hindu culture, wedding sarees are either green or yellow coloured, because these colours are believed to indicate prosperity and divinity.

3. Language:

Language is a series of actual muscular acts performed in throat and mouth. Spoken language is behaviour. Every society has a language with unique phonetics, heritage etc..

4. Folkways, mores and institutions:

Folkways are the unconscious behaviour patterns in life. Eg: shaking hands; smile at the sight of near and dear ones. Mores are customs, which are vital for the continued existence of group. Eg: Marriage, rituals, respect for authority etc., institutions are patterns of folkways and mores. Eg:

School, family, state, temple are the institutions.

5. Ideals:

Things in life, which are desirable against undesirable are called ideals. Desirable and undesirable; pleasant and unpleasant; right and wrong; morals and immorals are the ideals. Business units should produce and deal with right goods and services, not the wrong ones.

6. Festivities:

Festivities are an integral part of culture. Every religion observes festivals in a society and culture.

7. Values:

Values refer to what people value most. Eg: work, honesty, humanity, hospitality, simplicity, integrity. Values are learned and passed on from generation-to-generation.

8. Attitudes:

A person's enduring favourable or unfavourable evaluations, emotional feelings and action tendencies towards some object or idea.

9. Symbols:

Symbols have form, function and meaning. Culture may be in "symbols". Eg: National flag is a symbol. Saluting a national flag is a culture taught in educational institutions. Religious symbols like holy cross, holy ash, kumkuma, mangalyam, toe-ring are some important symbols.

2. "Business activities are influenced by the social structure and the culture of a society"- examine this statement in the light of interdependence of business and society?

1. The type of products to be manufactured and marketed; the marketing strategies to be employed; the way of organizing a business; its management; the values and norms it should adhere to, are all influenced by the social structure and culture of the society.
2. The social system is influenced by the way the business works.
3. Organization of the business, functioning of the business, innovations, transmission and diffusion of information and new ideas may affect society.
4. Business activities greatly influence the social attitudes, values, outlooks, customs etc.,
5. It is very difficult and impossible to change many elements of social environment in short-runs. Hence, a business have to adapt to these uncontrollable external environment.

Business and society:

According to modern thinking business is an integral part of the social system. It is a social organ to accomplish the social goals also. Business activities and attitudes are subject to societal judgement. A business unit shall make profit only by accomplishing the socially accepted goals and by satisfying society. This is the interdependence of business and society.

The modern concept of business is a very broad one. Business is viewed as a subsystem of the total social system. Business is an integral part of the social system.

It is influenced by other elements of society, which in turn, is affected by the business.

Three more ideas are significant in understanding the nexus between business and the society. The three ideas are

a) Values:

Business develop belief systems and values for which they stand. Mission of the business, country of location; the type of industry; the nature of employees are the sources for values. Values are the strong motivations for people in business. **b)**

Viability:

Viability is the drive to live and grow and to accomplish the potential and to achieve all that a living system wants to become. A business must initiate its share of forces in its own environment. A business, then, becomes a positive actor on the social things.

c) Public visibility:

This refers to what public think about the acts of an organization. Public examination – public discussion – and – public judgement are the activities to judge the business relevance.

In conclusion it is said the business is an integral part of the social system. It is a social institution to help accomplish the social goals.

3. Examine the impact of communal groups on business?

Communal groups refer to caste, community, joint family, linguistic and religious groups and social organizations. These communal groups have a strong impact on businesses and their activities. The influence is brought-out by the following:

a. Caste system and business:

Business risk bearing is found more in the castes of Vysya, Chettiars, Marvadis, Nadars, Pillais castes in our country. Certain other castes like Reddy, Naidu are also cominant in running business units in our country. By and large, the risk-bearing and affordability factors are related to the caste systems.

b. Communal system and business:

Organization of social life within a geographical area, a closely woven social relations and a strong social unity refers to community. Communities are formed on the basis of occupation, race, ethnic factors, religion, socio-economic conditions, modernity and professional factors. Rural community is based on agricultural and farm sectors. Businesses undertake R&D in farm sector. Urban community is engaged in manufacturing and service occupations. Industries depend on urban community for supply of human resources.

Ethnic groups are division of people on the basis of language, place of origin and heritage. Communities based on socio-economic conditions is a matter of significance for business.

c. Joint family system and business:

The joint family is managed by elder most person, known as Karta. Purchase and investment decisions are centralized. Demand for products and services is influenced by Karta. These are positive impacts.

d. Religious groups and business:

Several religious exist in our country. Hindu society is a majority religious group. Islam, Christians and Sikhs are other significant religious groups. While performing the religious-rituals, these groups depend on the business units for supplying the products/services needed.

e. Linguistic groups and business:

Linguistic groups constitute the Telugus; the Tamils; the Kannadigas; the Malayalees; the Maharashtrians; the Punjabis; the kashmiris etc., each group has its own features, ambitions and expectations. Linkage between linguistic factors and business may be seen.

f. Social organizations and business:

Social organizations have three systems (A) social system (B) cultural system and (C) personality system. Social system consists of family-community-caste-ethnicityreligion-linguistic factors. The cultural system consists of customs-knowledge and beliefs-language-folkways, mores and institutions-ideals-festivals-values-attitudessymbols constitute cultural system. Personality system includes intelligencetemperature-tone-body-build-look and outlook.

4. “Professionalisation makes business more efficient, dynamic and socially responsible”- how far this statement holds good (or) what do you mean by professionalization of management? Present a case for professionalization?

The growth of management education and training has contributed to the growing professionalization which, in turn, has contributed to the growing social orientations of business.

Professionalisation imparts a certain social responsibility and dignity to management. A professional is one who possesses systematic knowledge and skill to perform certain responsible functions with authority and who is bound by certain ethics in the use of his knowledge and skill. According to Lewis Allen, “a professional manager is one who specializes in the work of planning, organizing, leading and controlling the efforts of others and does so through a systematic use of classified knowledge, a common vocabulary and principles, and who subscribes to the standards of practice and code of ethics established by a recognized body.”

In this connection, Peter Drucker observes; “ Management is independent of ownership, rank or power. It is objective function and ought to be grounded in the responsibility

for performance. Professional management is a function, a discipline, a task to be done; and managers are the professionals who practice of this discipline, carry out the functions, and discharge these tasks, it is no longer relevant whether the manager is also an owner; if he is it is incidental to his main function, which is to be a manager.

Drucker further remarks: "The professional has to have autonomy. He cannot be controlled supervised, or directed by the client. He has to be private in that his knowledge and his judgement have to be entrusted with the decision. But it is the foundation of his autonomy and indeed its rationale that he sees 'himself as affected with the public interest'. A professional, in other words, it is private in the sense that he is autonomous and not subject to political or ideological control. But he is public in the sense that the welfare of his client sets limits to his deeds and words.

A professional has enormous responsibilities. He shall not use his knowledge, skill and authority unscrupulously. He shall not knowingly do harm to his customers. He is socially bound by the ethics of his profession.

From what have been stated above, it is clear that professionalization of business management means that the business should be managed by men:

- Who have formally acquired the specialized knowledge and skill for management;
- Who have authority and freedom to take the right decision;
- Who have no ideological bias in the discharge of the functions and
- Whose decisions and actions are guided by certain ethical consideration.

Though progress has been made in the direction of professionalization of management in India, there is still a long way to go, particularly in the many enterprises which are owned by one or a few families. Professionalization does not, of course, mean that the owners shall not be the managers; but it certainly means that the managers should have proper management education and qualifications. In business circles, there has been a growing awareness of the need for professionalizing management; and, as a result, many "family concerns" have taken steps for this purpose.

Professionalization makes business more efficient, dynamic and socially responsible. The growth of management education in the country and the facilities abroad to obtain management education have contributed to professionalization in the business field.

5. "Professionalisation of business management should be reflected in the increasing acceptance of business ethics"- Explain the role of moral principles and rules of conduct applied to the business in view of this statement?

The term business ethics refers to the system of moral principles and rules of conduct applied to business.

That there should be business ethics means that the business should be conducted according to certain self-recognised moral standards. Business, being a social organ, shall not conduct itself in a way detrimental to the interests of society and the business sector itself.

A profession is bound by certain ethical principles and rules of conduct which reflect its responsibility, authority and dignity. The professionalization of business management should, therefore, be reflected in the increasing acceptance of business units.

There is, however, no unanimity of opinion on what constitutes business ethics. In this connection, Peter Drucker very appropriately remarks: "There neither is a separate ethics of business, nor is one needed." For "men and women do not acquire exemption from ordinary rules of personal behaviour because of their work or job. Norm however, do they cease to be human beings when appointed vice-president, city manager, or college dean. And there have always been a number of people who cheat, steal, lie, bribe or take bribes. The problem is one of moral values and moral education of the individual, of the family, of the school."

One is inclined to agree with Drucker that every individual and organ in society should abide by certain moral codes, and that there is no separate ethics of business.

However, certain norms and principles of conduct have been commonly advocated as constituting business ethics.

In the 1930s, rotary international developed its code of ethics that is still used extensively. It uses four questions that are called the four way ethical behaviour for any ethical issue a business faces.

- Is it the truth?
- Is it fair to all concerned?
- Will it build goodwill and better friendship? □ Will it be beneficial to all concerned?

The most important professional ethics is expressed by the Hippocratic oath of the Greek physician *primum non nocere* ("not knowingly do harm"). This dictum implies that a professional should carefully evaluate his decision and ensure that his actions will not produce negative effects. Thus, this code rules out all anti-social business practices.

The code, *primum non nocere*, encompasses most business ethics. We may, however, list the important ethical principles that a business should follow:

- Do not deceive or cheat customers by selling sub-standard or defective products, by under measurement or by any other means.
- Do not resort to hoarding, blackmarketing or profiteering.
- Do not destroy or distort competition
- Ensure sincerity and accuracy in advertising, labeling and packaging.
- Do not tarnish the image of competitors by unfair practices.
- Make accurate business records available to all authorized persons.
- Pay taxes and discharge other obligations promptly.
- Do not form cartel agreements, even informal, to control production, price etc., to the common detriment.
- Refrain from secret kickbacks or payoffs to customers, suppliers, administration, policies etc.
- Ensure payment of fair wages to and fair treatment of employees.

Role of trade associations:

Trade associations which are voluntary organizations of businessmen formed to promote their common interests can promote business ethics in three important ways:

a. Education and persuasion:

Trade associations can promote business ethics by educating the members about the importance of, and the need for, having business ethics, and persuading them to give due regard to ethical principles in the conduct of their business. The members should understand that if every businessman follows business ethics, everyone of them would be benefited and there would be an improvement in the general image of the business community in the eyes of the public.

b. Code of ethics:

Trade associations can formulate a code of conduct for their members. Such a code of conduct should also contain the code of ethics. The code of conduct will not only guide but also regulate the conduct of business by the members.

c. Moral sanctions:

‘Sanctions’ refer to the ways in which moral conduct is rewarded or misconduct is punished. Such incentives and punishments should be expected to promote business ethics. A trade association may even debar a member for a serious violation of the code of conduct. Fear of such punishment might prompt members to refrain from unfair business practices. On the other hand, public recognition and reward for high, moral standards, business might give a positive inducement to them to practice business ethics.

6. What is consumerism? How does it affect business? What government has done to promote consumerism?

Consumerism is a movement to inform consumers and to protect them from business malpractices. The movement focuses on inferior and dangerous products, goods, unfair business practices and false or misleading advertisements.

Unfair practices of businessman:

- Artificial scarcity creation
- Unreasonable hiking of prices
- Adulteration
- Under-measurement and under weighing
- Acceptance of money in advance
- Dishonouring delivery-schedules
- Unkept promises on after-sales service and
- Mis-use of ads., making false claims and telling half-truths

What government has done to promote consumerism?

The government has passed legislations and issued notifications and orders. These are aimed at restraining businessman from indulging in unfair practices. As many as 50 laws exist in our country to protect the interests of the consumers.

Among them, the most powerful one is the CONSUMER PROTECTION ACT – 1986 with latest amendments.

Administrative machinery of consumer protection act – 1986:

This act provides effective protection against unfair trade practices, unsatisfactory services and defective goods. The Act provides for the setting up of the National Commission – New Delhi head quarters; State Commissions at each State Head Quarters and District Forum at each District head quarters. In addition, there are consumer protection councils. All these have handled nearly 13 lakh cases, out of which 10 lakh cases have been settled so far.

Other measures of the government:

- a. Inclusion of the consumer protection as an item in 20 point programme.
- b. Setting up of a consumer Advisory council
- c. Wider coverage in media through AIR; Doordarshan

A part from the government measures the consumer should himself assert his rights. He/she should protect himself/herself against business malpractices. Various consumer movements have come up in different parts of the country. Nearly 237 and odd consumer organizations are working towards consumer protection.

Effect of consumerism on business:

Businessmen should realize their moral responsibility and avoid indulging in harmful practices lightened self realization is lacking. Government regulations are needed to protect consumer interest.

A powerful consumer movement bestows certain responsibilities on business understanding consumer needs and producing goods and services to satisfy the needs are the prime-responsibility of businessman. The additional responsibilities are:

A. Truth in ads. and labels:

- Make honest claims and do not mislead the consumer.
- Do not offend the standards of public decency
- Safeguard the excessive promotion of hazardous goods
- Observe fairness in competition between different brands of the same product – This is ad. Code given the Ad-club of India in 1982

The labels are also misused. The government has passed the central packaged commodities order 1975. This order requires that the details on the name of manufacturers, date of expiry, net weight, and sale price are printed on the containers and packages.

B. Responsibility for product performance:

Businessmen should assume full responsibility for product performance. Money back guarantee and guarantee-period are good. Government they alone are not enough.

Responsibility for performance and safety throughout the product life should be assured.

7. Examine the impact/influence of culture on business?

Culture exerts a strong influence on business activities. The business and its people will have to adapt to the cultural environment of the different markets. It is necessary to know the process and nature of cultural environment. This helps the business units to develop strategies. Eg 1: A business manager should consider the extent to which different consumers adapt to the new environment. So, it is possible to introduce new ideas, techniques, products while segmenting the markets or promotionmix strategies.

Eg 2: The cost of ignoring customs, traditions, taboos, tastes and preferences can be very high. In Italy, a US company set up a corn-processing plant. The company found that its marketing efforts failed, because Italians thought of corn as "Pig-food". The Nestle company brews a variety of instant coffee to satisfy different national tastes.

These two examples clearly say that there is a NEXUS between culture and business. The following points bring out the influence/impact of culture on business:

1. Culture creates people:

Culture trains people along particular lines. Culture puts a personality stamp on people. People with different backgrounds of culture promote, own and manage organizations. The organizations tend to acquire different cultures. Eg: The culture of Tata group of companies is different from the Birla group of companies.

2. Culture and globalization:

In view of globalization, managers shift their philosophy from treating everyone alike to recognizing cultural differences. It also necessitated them to find the ways to ensure employee-retention. Cultural diversity can increase productivity.

3. Culture determines goods and services:

The type of food people eat; the clothes they wear; the beverages they drink; the building materials they use-, differ from culture to culture and from time-to-time. These cultural differences bring out products accordingly.

4. Language and culture:

In corporate world, English is widely used. Countries promote the teaching and learning of English among their citizens. A clear understanding and effective use of English language is essential for the success of any business.

5. Culture and attitudes:

The culture of the land determines its people's attitude towards business. Beliefs and value systems of what is right and what is wrong are basic to all business activities. In capitalist systems, an individual perceives business basically as profit-seeking organization producing goods and services.

6. Collectivism Vs Individualism:

Feeling of collectivism or individualism has its influence on employee morale, multiplicity of unions and inter-union rivalry.

7. Ambitious or complacent:

Ambition to grow and achieve great things or remain satisfied with what we have is complacency. Culture makes a person to become ambitious or complacent.

8. Culture and education:

Education has considerable business implications. Economic progress of a country depends on the education of its citizens. A society rich in education attracts high wage industries. Level of literacy and educational attainment decides the nature of advertising, packaging, quality of marketing research and distribution system.

9. Family system:

Family system is basic to all social organizations. In our country, joint family system is the basis for most of the businesses.

10. Authority:

Our society was known for authority and power being concentrated with the king. But, the greatest merit of our society has been that the king or the boss is governed by the DHARMA principle.

11. The view of scientific method:

Indians have absorbed new technology and adopted the latest methods of production. Green revolution is a proof that people are open to new technologies.

12. Ethics in business:

Every individual has a responsibility of being ethical on his own. At the same time, he must make his group to be ethical

13. Religion in business:

India has produced hundreds of entrepreneurs who have made it big in India and abroad. Religion has its impact on the economy of a country.

14. Marriage:

Performance of household sacrifices progeny and sexual-pleasure are the three objectives of marriage. Various kinds of marriage performances create demand for the goods and services of businessmen.

For example: Hindu marriages create demand for gold-coconut-provisions-flower decorations-food catering-purohit- clarnet music-cine musical night business activities.

15. Cultural resources:

Culture is a big business countries export cultural products and earn foreign exchange. US, India, Japan, and a host of countries make lot of money by selling culture movies, music, TV programmes and home video to other countries.

16. Customs and manners:

Customs are common practices. Manners are behaviours that are regarded as suitable in a particular society. The businessmen should understand manners and customs of his/her country citizens. Failure to do so will result in losing business.

8. Analyse the impact of foreign culture on Indian business in recent years?

Foreign culture has influence over Indian business. But, our culture is broad and widespread that it exhibits elements of all cultures of the world. We could mix the diverse elements in right proportion and produce a 'balanced culture'. Hence, there is no questions of any 'foreign culture' in Indian soil. The 'East' and 'West' cultural divides are an academic debate and discourse. The 'East', is said to be 'traditional', 'closed', 'spiritualistic', 'paternal', and the like. The 'West' is said to be 'modern', 'open', 'commercial' and sex-neutral', it should be said that ours is a mix of both cultures. So, no culture is foreign to ours. Yet, it is usual to bracket 'ours' with the 'East' that influence of the 'West' on our business is a 'created' subject of interest. Assuming ours as 'East', let us examine the influence of the 'West' on our business.

First and foremost impact of foreign culture in Indian businesses is the advancement of technology. Technologically we are different now from what we were a decade ago or before. New technology is introduced into India. Be it agriculture, or industry or service, technological advancements, of a superior order are happening which we can attribute to our alliance with the 'West'.

Second apart technology, innovations of the 'West', are introduced into India. The multinational companies are the agencies through which the innovations enter India. Hence, new business opportunities accrue to India, either via adaptation, imitation or absorption, of innovations.

Third speed of our development is getting a thrust. No doubt, we with our resources, policies and programmes are set to grow. But development process needs to register a certain speed, so that development itself could be visibly seen. It should be said that the culture of speed has caught us by our exposure to the Western culture.

Fourth, Western culture is materialistic in orientation. Profit motive is the driving force. Economic gain and wealth addition are the goals pursued. These materialistic orientation has been borrowed into our culture. Modern corporations represent this orientation.

Fifth, Western cultural invasion into our lands has led to fissures in our social life, especially at the family level. Joint families are becoming a thing of the past. Couples prefer nucleus families. This tendency has given birth to more business opportunities in housing, household goods etc.

Sixth, our society is also becoming open, with women no longer remaining indoors. In pursuit of education and job opportunities women go out to places. And new businesses are built around this tendency of the women folk.

Seventh, Westernisation is corporatisation, which lead to urbanisation. Urbanization leads to migration. In metros, therefore, congestion prevails. Real estate business flourishes. Slowly, rural lands become housing plots. Villages become more dependent on cities, with far reaching socio-economic implications.

Eighth, marriage age of boys and girls has been increasing. Child marriage is a bygone thing. Rituals are followed in convenient forms. Relations become temporal. As a result certain businesses have no place, while new ones have emerged.

Ninth, greater importance is being given to physical personality, such as dressing style, personal wares, etc. The average Indian household spends more on dressing than what he did in the past. Hence the business opportunities for related industries.

Tenth and final, private sector is getting new thrust. Efficiency and profit orientations, quality consciousness, etc. have once again made 'private sector' the star attraction.

**9. Attempt notes on a) organization culture b) cultural shock c) cultural transmission
d) cultural – lag e) cultural adaptation f) cultural differences**

Organization culture:

Organization culture refers to the philosophies, ideologies, values, assumptions, beliefs, expectations, attitudes and norms that knit an organisation together. These are shared by its employees.

Organizational members tend to internalize cultural nuances. They like to internalise newcomers into such mores. Some of the practices are so internalized that no one questions them. They get institutionalized.

Besides, institutionalization -, deification or glorification occurs in organizational cultures heroes emerge. They are among the founding fathers of the organization. Their sacrifices, valorous deeds, ingenuity in initial years and crisis periods are embellished into stories and sagas. The firm is regarded as unique of pride and it is regarded as unique.

Employees begin to feel a strong-bond with the organization. They begin to identify with firm. The organization turns into a sort of clan. The members become ethno-centric. Most of the Indian companies developed the clan-culture. This culture led to the collapse of several joint ventures between Indian firms and overseas firms. Mention may be made of breaking-up of the link between Tatas and IBM; Godrej with Proctor and Gamble; DCM with Toyota; LML-Piaggio; and Mahindra with Ford.

Cultural adaptation:

Cultural adaptation refers to the manner in which an individual fits into sociocultural environment. The system may be a small group, family, organization etc.,

Eg 1: the type of clothing, food and dwelling suitable for the climatic and weather conditions are the forms of adaptations.

Eg 2: people of the country adapted to the energy crisis caused by the oil-price-hikes by modifying our energy policy. We have intensified oil exploitation, developed alternative source of energy and restricted oil consumption.

At individual level:

An individual who joins a trade union has to fit into the objectives-rules and ways of the union. An individual joining a new organization will have to adapt to the new environment.

Business firm and its people have to adapt to the environment of the different markets. Every difference of environment means a difference in habits, our ways of living. It is necessary to know the process and nature of the cultural environment. This helps for the successful formulation of business strategies.

Eg: Areas of cultural adaptation in firms include introducing the new ideas, techniques and products; market segmentation; forming product and promotion mix strategies. The managers have to consider the extent to which different categories of consumers adapt to these new areas. They have to consider the factors favouring or disfavouring cultural adaptation.

Cultural shock:

Cultural shock is a feeling of confusion, insecurity and anxiety caused by the strangeness of the new environment.

Executives and other employees on the foreign assignments may experience the culture shock in alien environment. Sometimes, the organization may suffer shock.

A youngster born and brought up is posted to a bank in a remote village. He may experience a cultural shock. Similarly, a villager may experience a culture shock when he takes up a job in a large modern company in a far away or abroad. If these people want to survive, they have to adapt to the new culture.

Proper homework to understand the culture can avoid the shock. This speaks the importance of the selection of people for foreign markets.

Cultural transmission and diffusion:

The elements of culture are transmitted among the members from one generation-to-the other generation. Some of the aspects of a culture may be transmitted to other cultures also. Every generation inherits a stock of cultural elements accumulated for a long time certain old elements are dropped as new ideas and traits are acquired.

Cultural transmission is downward, upward, and horizontal. Parents-teacherselders-reference groups transmit cultural behaviours to the youngsters. This is downward cultural transmission. Elders imitate or adopt some of the new traits of youngsters. This is upward cultural transmission. Contemporaries also transmit their cultural aspects in styles of dress, recreational times, reading and learning habits, political, social and economic views. This is called horizontal transmission of culture.

Symbolic communication:

Sign-signals and words are used to convey the meanings. Literature-film-TV and some other electronic gadgets, advertising and marketing techniques are used to transmit culture. This leads to spread of culture, which means cultural diffusion.

Cultural differences:

The tastes-preferences-purpose of consumption-methods of consumption-occasion of consumption-quantity, values associated with consumption of a product show wide variation between cultures. This is one dimension of cultural differences.

Most national markets are multi-cultural. The number of ethnic groups and languages in use are many. This cultural diversity posing a problem and challenge to the management. Cultural difference is one of the most difficult problems in the international business.

Cultural differences in international business:

In India, NESCAFE has almost a ¼ share of Mumbai market. Its share is very small in Bangalore and insignificant in Chennai. BRU, which takes the large chunk of the Chennai and Bangalore market has a low market in Mumbai due to difference in taste and preference habits among people in west and south.

Bicycles are a basic means of transportation in many developing countries. They are used for exercising and sporting in many developed countries.

Considerable difference between the product attributes the Americans and Japanese perceive can be observed in US market. Correct weight and bacteriological factors are more important. In Japanese market, eye-appeal, colour, uniformity of size and arrangement of shrimp are important.

Cola drinks are taken with snacks in North America, just as coffee or tea in India. Cola is promoted as a thirst-quencher in India.

Values and beliefs associated with colour vary significantly among cultures. Blue is warm and feminine in Holland; same is cold and masculine in Sweden. Green is a favourite colour in Islamic countries, but it is associated with illness in Malaysia. Red is a popular colour in communist countries, but many African countries have distaste for red colour.

Similar differences exist among value associations and numbers eg: 9 is considered as a lucky number by some of the Indians. 13 is considered bad in America. Hospitals, lodges etc., skip 13 whole numbering rooms.

Great difference exist in the manners of greeting people and physical distance kept between people. Embracing, hugging or kissing are common in some cultures. In some other cultures, they are highly objectionable.

Most countries consider laughter as an expression of joy. In many west African countries, laughter indicates embarrassment. Handshake while greeting and bidding good-bye are common in many societies. It is not common in many others. Some people dislike or object to it.

Gift-giving has its own place in many cultures. On many occasions, it has become customary. In most parts of the Asia, gifts should be given privately to avoid embarrassing. But in the middle east, gifts are offered publicly, in order to avoid the impression that bribes are offered.

10. Explain the sources of corporate ethics?

Ethical dilemmas:

A manager confronts ethics from 3 sources. They are face-to-face ethics, corporate policy ethics and functional area ethics.

a. Face-to-face ethics:

Human element in the business transactions leads to face-to-face ethics. Eg: Quality assurance man overlooks at minor defects and approves a lot delivered by a supplier because of the personal relationship the two enjoy between them.

b. Corporate policy ethics:

Corporate policies generate ethical dilemmas. The top managers and directions are involved in the policy making and implementing them. The ethical content of their policies has an impact throughout the company. Companies are often faced with ethical dilemmas. They affect their operations across all departments and divisions. The following situation presents conflicting situation.

Eg: 1. Your R&D department has modernized are of your products. It is not really "NEW and IMPROVED", but you know printing this statement on the package and using it in the advertisement will increase sales. What would you do?

2. you are interviewing a former product manager, who just left the competitor's company you are thinking of hiring him. He would be more than happy to tell you all the competitor's plans for the coming years. What would you do?

c. Functional area ethics:

Ethical dilemmas come up in purchasing departments. Strong pressures are felt to obtain the lowest price from suppliers. Suppliers too feel a similar feeling to bag a lucrative contracts. Bribes-kick backs-discriminatory pricing are the temptations to both.

Marketing is another area. Pricing, promotions, advertising, product information relations between and agencies and their clients and marketing research are the potential areas for ethical dilemma.

Sophisticated communication technology, its gross abuse or misuse to realize one's ambition is also an area of corporate ethical dilemma.

When accounting standards are honestly followed, they ensure a high level of honest and ethical accounting disclosures. Rarely, they are followed in practice.

11. How do you manage ethics in corporate sector? (Or) What are the managerial interventions to ensure ethical conduct in business units?

Today, many companies are using managerial techniques. They are designed to encourage ethical behaviour. Some important managerial interventions to ensure ethical conduct are presented below:

1. Top management's initiative:

The CEO takes initiative in ensuring ethical standards in his/her organization. The top management must avoid adopting business strategies, schedules and reward systems that put unreasonable pressure on employees.

2. Code of ethics:

Nearly 95% of the fortune-500 companies have codes. This trend is visible in our corporate sector also. The council for fair business practices (1966), established by leading private sector industrialists in western India has a code of ethics. The FICCI, the PHDCCI, the advertising standards council of India have evolved a code of ethics for their members.

Whoever evolves the code, its purpose is to provide guidance to managers and employees in ethical dilemma. Codes of ethics are drawn-up with the cooperation and widespread participation of employees. An internal enforcement mechanism including penalties, would strengthen the code.

3. Ethics committees:

Ethics committees advise on ethical issues and dilemmas. It is a high level one comprising the BOD, chaired by the CEO of the company.

The ethics committees invite questions from employees, they help the company to establish policy in new or uncertain areas. The committee advises the BOD and supervise the enforcement of the code of ethics.

4. Ethics hot-lines:

When employees are reluctant to raise the ethical issue with immediate supervisor; they can make a call on the company's "ethics-hot-line." A member of the ethics committee receives the confidential-call and then quickly investigates the situation elaborate steps are taken to protect the identity of caller so as to encourage more employees to report any deviant behaviour.

5. Ethics training programmes:

Such training programmes acquaint company personnel with the official company policy on ethical issues. Simulated cases based on actual events in the company are used to illustrate how to apply ethical principles to on-the-job problems.

6. Ethics and law:

Law helps to promote ethical behaviours in organizations. The following acts seek to ensure fair business practices:

The FEMA; companies act 1956; the MRTP act as replaced by competition act 2002; consumer protection act 1986; the environment protection act 1986; the essential commodities act.

12. Write a short notes on corporate culture and ethical climate?

Corporate culture is a blend of ideas, customs, traditional practices, company values and shared meanings. This helps to define the normal behaviour for everyone working in the company. Each organization has a culture, which exercises considerable influence on the employee behaviour.

Eg: Hewlett-Packard is well-known for a culture. It stresses values and ethics. This culture is called the "H.P. way" by employees. Most important values of the culture in H.P. way are confidence in people-respect for people-open communication-sharing of benefits and responsibilities-concern for individual employees-honesty and integrity.

Ethical climate is unarticulated understanding among employees. It is a part of corporate culture that sets the ethical tone in a company.

Eg: If a manager approaches ethical issues with benevolence(concern for others) in mind, he would stress friendly relations with employees, emphasizes team-play and cooperation for the benefit of company and employees.

On the otherhand, if a manager uses egoism(self-centredness) to think about ethical problems, he would be more likely to think of self-interest, and promoting the company's profit and striving for efficient operations of all costs. If a manager uses principle (respect for one's own integrity for group norms and society's laws), he would think of personal morality-company rules and procedures and laws of the country and professional codes.

Thus, the corporate culture and ethical climate put pressure on people to channelize their actions in certain directions desired by the company.

13. Discuss why business should participate in cultural affairs?

Business enterprises do two things in culture a) support to cultural activities and b) beauty in building design.

a. Support to cultural activities:

Such activities include:

i. Employing artists and musicians; ii. Organizing exhibitions of contemporary paintings; iii.

Sponsoring cultural programmes through TV iv.

Instituting awards for excellence

Eg: ITC (Indian Tobacco Company) sponsors Sangeet Sammelans and maintains Sangeet Research Academy in Kolkata

b. Beauty in building design:

Earlier, beauty in the buildings was not considered in designing and constructing. Factory business buildings focused mainly on utilization functions. As a result, there was an absence of beauty, distasteful, negligens. Things are different now. Now, factory buildings are constructed with aesthetic-values kept in mind. Many factory sites are now industrial parks, they are more beautiful than the surrounding residential houses.

Justification of business participation in cultural affairs:

Business justifies its involvement because of the quality of better life in the community. In turn, the quality-of-life improves recruiting and the retention of employees.

Business involvement improves the satisfaction of its employees with their community. A better place for their children in the society is given for their growth. It also encourages employee's cultural growth.

Cultural participation attracts better quality of citizens. It improves the quality of labour-pool from which the firm recruits.

Cultural opportunities may challenge youth in the community to raise their achievement, drives and provide favourable outlets for their emergies.

14. Why is social responsibility important for business? (or) Examine the force processing for social responsiveness?

Being dependent on society, a business enterprise has definite responsibility towards society. Popularly called CORPORATE SOCIAL RESPONSIBILITY (CSR), the subject has become an important topic. As stated by Henry Ford, "Business is not money chasing. But it should also aim at serving the community." Serving the society / community is regarded as an important objective of business.

Concept of CSR:

Social responsibility is understood as the obligation of decision makers to take actions which project and improve the welfare of the society as a whole along with their own interest.

"Industry in the 20th century can no longer be regarded as a private management for enriching share-holders and it has responsibility to customers, workers, stakeholders and the country."
- **GEORGE GOYDER**

Before taking any action, the businessmen should keep social implications in mind. Diversification-expansion-opening of a new branch-closure-replacement of men and machines-overtime and night shifts-subcontracting-laying_off employees etc., have a social impact.

Reasons for CSR / forces pressuring CSR:

Social responsibility is important for business against the reasons explained below. They are the forces pressuring for social responsiveness:

1. Government programmes:

Most governments demand the following of existing regulations. Foreign governments exert pressure on MNCs to abide by codes-of-conduct that they have drafted. They expect businesses to respect human rights and social justice pay fair wages, protect the environment, ensure safety, and health of workers, improve workers living conditions and behave ethically.

2. Community interest and demands:

Firms undertake many programmes that give benefit to society in general. Such programmes range from helping to rebuild disadvantaged sections to providing executive talents to run government undertakings MNCs from US create scholarships to poor but deserving students from Korea, Malaysia and Mexico to pursue higher studies.

3. Environmental concerns:

Standards established by government agencies demand environmental programmes. Government of India enacted the environment protection act 1986. Pollution control boards set up under the provisions of the act have laid down norms. Firms are expected to take care of environmental issues.

4. Pressures from shareholders:

Sometimes, shareholders exert pressure on the firms to respond to community interests. Eg: shareholders of Pepsi Co., launched a campaign to force the company to pull-out-of Myanmar due to violation of human rights by military regime. Pepsi co., did oblige the shareholders.

5. Competitive advantage:

Firms believe that by undertaking social responsibility actions, they would gain competitive-edge. Realizing this, corporations spend huge amounts on social responsibility.

6. Factor conditions:

Availability of trained workers high quality scientific and technical institutions, adequate physical infrastructure, transparent and efficient administrative processes and natural resources. These are factor conditions, which influence social responsibility actions.

7. Demand conditions:

Social actions can influence the size and quality of the local market. Eg: Apple computers has donated computers to schools as a means of introducing its products to young people. This provides a clear social benefit to the schools. At the sametime, the market for the company increases.

8. Related and supporting industries:

Social responsibility can foster the development of clusters and strengthen supporting industries. Eg: American Express Bank is a part of the travel-cluster in the countries where it operates. It depends on the success of these clusters in improving the quality of tourism and attracting travelers.

15. What are your arguments for and against the corporate social responsibility?

Arguments for social responsibility:

a. Changed public expectations of business:

One of the most potent arguments for social responsibility is that public expectations from business have changed. It is reasoned that the institution of business

exists only because it satisfies the valuable needs of society. Society gave business its character to exist, and the charter can be amended or revoked at any time that business fails to live up to remain viable in the long-run, it must respond to society's needs and give society what it wants.

b. Better environment for business:

Another argument favouring social responsibility is that it creates a better environment for business. This concept rationalizes that a better society produces environmental conditions more favourable for business operation. The firm which is most responsive to improvement of community's quality of life will as a result have a better community in which to conduct its business. Labour recruiting will be easier, and labour will be a higher quality. Turnover will increase and absenteeism will be reduced.

As a result of social improvements, crime will decrease with the consequence that less money will be spent to protect property and less taxes have to be paid to support police forces. The arguments can be extended in all directions to show that a better society produces a better environment for business.

c. Public image:

Another argument in favour of social responsibility is that it improves public image. Each individual firm seeks an enhanced public image so that it may gain more customers, better employees, more responsive money markets, and other benefits. A firm which seeks better public image should support social goods.

d. Avoidance of government regulation:

Government is a massive institution with long arms. It seeks to regulate business in the public interest. Government regulation is costly and denies the much needed freedom in decision-making. Before government stretches its long arms, business should discharge its obligation to society.

e. Balance of responsibility with power:

Another argument for social responsibility is that business responsibility should be more related to its power. It is reasoned that business have vast amounts of social power. They do affect economy, minorities and other social problems. In turn, an equal amount of social responsibility is required to match their social power. If each institution is to perform its social role in an orderly relationship with other institutions, then responsibility must be accepted wherever there is power. Any other arrangement invites irresponsible behaviour.

f. Business has the resources:

Another argument for social responsibility is that business has a vast pool of resources in terms of men, talents, functional expertise and money. Probably business is without peers in respect of the resources it possesses. With these resources at its command, business is in a better position to work for social goals.

g. Let business try:

One interesting argument for social responsibility of business is a sort of backhanded one. It is that many other institutions have failed in handling social problems, so why not turn to business. Many people are frustrated with the failures of other institutions, and in their frustration, they are turning to business.

h. Prevention is better than cure:

The last point is that prevention is better than cure. If business delays dealing with social problem now, it may find itself constantly with putting out social fires so that it has no time to accomplish its goal of producing goods and services. Since these social problems must be dealt with at sometime, it is actually more economical to deal with them before they develop into serious social breakdowns that consume most of management's time.

Arguments against social responsibility: A.

Profit maximization:

The first and the most forceful argument disavouring social responsibility is that business has profit maximization as its main objective. In fact, the business is most socially responsible when it attends to its interests and leaves other activities to other institutions. Since business operates in a world of poverty and hunger, the economic efficiency of business is a matter of top priority and should be the sole mission of business. Business's function is economic, not social, and economic values should be the only criteria used to measure success. In this kind of system managers are the agents of the stock-holders and all their decisions are controlled by their desire to maximize profits for the stock-holders while reasonably complying with law and social custom. **B.**

Society has to pay the cost:

Another argument is that the costs of social responsibility will be passed on to the society and it is the society which must bear them. Can the society afford these additional costs?

C. Lack of social skills:

Business managers are best at managing matters relating to business. They are not equally good at solving social problems. Their outlook is primarily economic and their skills are the same. They really do not feel at home in social matter. If society is going to depend on someone to work with social problems, why choose group which is so poorly qualified? Does society really want economic and technical people meddling social affairs? Will they broaden their outlook, and will be skills transfer? Can business really do the job? Is it better equipped than government and other institutions? **D.**

Business has enough power:

Another argument is that business already has enough social power; therefore, society should not take any steps which give it more power. According to this line of reasoning, business is one of the two of three most powerful institutions in the society at the present time. Business influence is felt throughout society. It is felt in education, in government, in the home, and in the market-place. It moulds many social values. The process of combining social activities with the established economic activities of business would give business an excessive concentration of power. Business is an

institution which is considered to be not so good and giving more power to it is not advisable.

E. Social overhead cost:

Cost on social responsibility is considered to be a social overhead cost which will not immediately benefit the business. Why spend money on an object, the benefits of which will be realized only in the future? It is the heavy social overhead cost which is

one of the reasons for the dismal performance of some of our government undertakings.

F. Lack of accountability:

Another point of view is that businessmen have no direct lines of accountability to the people; therefore, it is unwise to give businessmen responsibility for areas where they are not accountable. Accountability should always go with responsibility, and it is poor social control to allow any other kind of arrangement. Until society can develop mechanisms which established direct lines of social responsibility from business to the public, business must stand clear of social activities and pursue only its goal of profit where it is directly accountable through the market system. **G. Lack of broad support:**

The last point is that business involvement in social goals lacks support from all groups in society. If business does become socially involved, it will create so much friction among dissident parties that business cannot perform its social assignment. Although many persons desire business to become more socially involved. Others oppose the idea. There is lack of agreement among the general public, among intellectuals, in government and even among businessmen themselves.

16. Explain the important areas of corporate social responsibility? (or) Describe the corporate social responsibility to various groups of society? (or) Make an analysis of C.S.R to different sections of the society?

Being dependent on society, a business enterprise has definite responsibility towards society. Popularly called CORPORATE SOCIAL RESPONSIBILITY (CSR), the subject has become an important topic. As stated by Henry Ford, "Business is not money chasing. But it should also aim at serving the community." Serving the society / community is regarded as an important objective of business.

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Before taking any action, the businessmen should keep social implications in mind. Diversification-expansion-opening of a new branch-closure-replacement of men and machines-overtime and night shifts-subcontracting-laying_off employees etc., have a social impact.

1. Social responsibility to shareholders:

Business responsibility to shareholders is to protect their interests. Business has a responsibility to protect and safeguard the capital of the shareholders. It provides a reasonable dividend on the shareholders investment.

In order to satisfy the shareholders, the company should strengthen its financial position. The company should enhance its public image, so that shareholders feel proud of their company.

2. Social responsibility towards employees:

The responsibility of the business towards the employees include:

Payment of fair wages-provision of the best possible working conditions-establishment of fair work standards-provision of labour welfare facilities-training and education-reasonable chances for promotion-recognition and encouragement of special skills-installing an effective grievance handling system and an opportunity to participate in managerial decision making.

3. Social responsibility to consumers:

The purpose of business is to create a customer. Consumer satisfaction is the key to attain organizational goals. The important responsibilities of the business to the customers/consumers are:

Supplying goods at reasonable prices-increase productivity, quality and smoothen the distribution system-R&D to improve quality and introduce better and new products-removal of black marketing, or profiteering service-products do not adverse affect on consumer-provide sufficient information on products/services-avoiding improper advertisements-providing an opportunity of being heard and to redress grievances-understanding customer needs and take necessary measures to satisfy these needs.

4. Social responsibility to the state:

Faithful compliance with all regulations-payment of taxes to the government promptly-playing the role of good corporate citizen-participating with government in the formulation of relevant laws-,are some of the areas of social responsibility towards the state.

5. Responsibility to the suppliers:

Large business enterprises should encourage sub-suppliers and establish everlasting relationship with them. A steady and lasting relationship with the suppliers makes good sense. Business units make prompt payment to the suppliers.

6. Responsibility to the community:

The areas of social responsibility to the community are:

Provision of health facilities-medical aid-assistance to educational facilities-encouragement to sports-maintenance of parks, gardens, and such other

activities. These are more than a small return to the community, which has enabled the business enterprise to live in its environment. The demand for environmental improvement offers opportunities to nearly all types of companies to tap new markets.

Unit – V

1. What do you understand by globalization? Explain its nature and features?

Globalization is called internationalization. It means integration with the world economy. Globalization refers to the process of integration of the world into one huge market.

- Philip Kotler

Such unification calls for the removal of trade barriers among countries.

“ The growing economic interdependence of countries worldwide through
a) increasing volume and variety of cross-border transactions in goods and services and
b) of international capital inflows and c) also through the more rapid and widespread diffusion of technology.”

- IMF definition on Globalisation.

Levels of globalization:

Macro level (i.e., globalization of world economy) and micro level (i.e., globalization of the business and the firm).

Nature:

Globalization of world economy:

Globalization is a process of development of the world into a single integrated economic unit. Nature of globalization of world economy is characterized by:

- a. International trade (lower trade barriers and more competition)
- b. Financial flows (FDI, technology transfers, portfolio investment)
- c. Communications (traditional media and internet)
- d. Technological advances in transportation, electronics, bioengineering and related fields
- e. Population mobility especially of labour.

Globalization of the business and firm / company – nature:

At firm / company level, the following is the nature of globalization:

- a. A global company views the world as one market.
- b. A global firm minimises the importance of national boundaries.
- c. It raises capital world-wide and enters markets wherever it can do the best.
- d. A global company targets customers across the globe.
- e. A global company goes for optimal locations for the performance of various activities in its supply chain.
- f. A global company goes for world-wide capital markets for financial resources.
- g. A global company understands and integrates diversity across cultures and markets.

Characteristic features of globalization:

- a. Operating and planning to expand the business through the world.
- b. Erasing the differences between the domestic market and foreign market.
- c. Buying and selling products and services from any country to any country in the world.
- d. Establishing manufacturing and distribution facilities in any part of the world based on the feasibility and viability rather than national considerations.
- e. Sources of factors of production and inputs like raw materials, human resources, finance, technology, managerial skills are drawn from the entire world.

2. Explain the stages of globalization process?

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Stages of globalisation:

A firm passes through different stages of development before it becomes a global corporation.

Stage - 1:

A domestic company, it exports to foreign company through the dealers or distributors of the home country.

Stage - 2:

The domestic company exports itself to the foreign company on its own. It does not depend on the dealers/distributors.

Stage - 3:

The domestic company becomes an international company by establishing the production, marketing and sales operations in the key foreign markets.

Stage - 4:

The company moves to the position of a “full-insider” position in these foreign markets. It is supported by a complete business system including R&D and engineering.

Stage - 5:

The company moves to global mode of operations. It becomes a true foreign company by serving the needs of foreign countries just like the host company serves.

After passing through stage-5, a domestic company fully transforms itself into a global company.

3. Examine the important components of globalization?

Globalization is called internationalization. It means integration with the world economy. Globalization refers to the process of integration of the world into one huge market. - Philip Kotler

Such unification calls for the removal of trade barriers among countries.

“ The growing economic interdependence of countries worldwide through a) increasing volume and variety of cross-border transactions in goods and services and b) of international capital inflows and c) also through the more rapid and widespread diffusion of technology.” - IMF definition on Globalisation.

Important components of globalization:

1. Globalization of markets:

Rapidly developing economies have huge markets. In developed economies, some companies operate below capacities. The emerging new markets offer immense opportunities to increase their sales and profits. A wide variety of products and services are offered in world-wide markets.

2. Globalization of production:

Many MNCs are locating their subsidiaries in low wage, and low cost countries. They take advantage of low cost of production. This is called as globalization of production. Main reasons for globalization of production are:

- a. Availability of quality raw materials and components in the other countries.
- b. Availability of inputs at low cost in foreign countries.
- c. Availability of human resources at low cost.
- d. Liberal labour laws in foreign countries.
- e. Facility of exporting to other neighbouring foreign countries.

3. Globalization of investment:

The early period of 20th century saw high levels of barriers on trade and investment. Many countries created barriers relating to exports, imports and foreign investment. This was done to protect the domestic industry.

The creation of GATT reduced the trade restrictions. The establishment of WTO contributed for the elimination of investment barriers substantially. Government of India also reduced the barriers on investment. It allowed more than 51% of the foreign investment in the Indian companies. At present, 100% FDI is permitted.

Important reasons for globalization of investment are:

- a. Rapid increase in the volume of trade
- b. Congenial investment conditions
- c. Limitations of exporting and licensing.

d. Liberalizing investment criteria.

4. Globalization of technology:

New, faster and cheaper tools of communication. Internet and electronic communication inter-linking many people simultaneously. Cellular phones, Fax machines, Computer Aided Design. Faster and cheaper transport by air, travel and road. These are components of globalization of IT. Manufacturing technology, assembly line operations are undertaken globally.

Ex: Toyota established integrated manufacturing system in all three of its main markets – North America, Europe and Asia. Plants in China, Indonesia, Malaysia, Philippines, Taiwan and Thailand turned out nearly 1/3 of the overseas production. These units are inter-linked by flows of components parts, production, planning etc.

4. Critically assess the impact of globalization? Or Examine the advantages and disadvantages of globalization?

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Impact/ influence of globalization can be assessed by the examining the pros and cons of globalization:

Pros/merits/advantages of globalization:

1. Free flow of capital:

In globalization, barrier on flow of foreign capital are removed to a larger extent. So, it allows for free flow of capital.

2. Free flow of technology:

Technology agreements among the countries is a feature. Technology transfers are freely allowed.

3. Rapid-rise in industrialization:

Due to globalization, industrialization rises. Manufacturing facilities are created in various locations. Global marketing strategies are developed company's outlook changes to global.

4. Spread of production facilities throughout the globe:

Eg: Mazda's sports car –“MX-5 Miata” was designed in California; had its prototype created in England; was assembled in Michigan and Mexico; using advanced

electronic components invented in New Jersey and fabricated in Japan; financed from Tokyo and New York and marketed globally. This is the fruit of globalization.

5. Globalization ensures balanced development of world's economy:

Due to relocation of manufacturing facilities in underdeveloped countries, development can be seen. Eg: Many Indian construction companies undertake jointventures and infrastructure-projects in Middle East, Africa, Sri Lanka, Afghanistan, Nigeria due to liberalized trade policy.

6. Increase in production and consumption:

Deregulation of licensing and relaxation in production capacities led to outputgeneration very largely. As a result, consumption levels increased.

7. Lower price and high quality:

Indian industries became more and more competitive-edge. Production of goods with high quality given more emphasis, as the products aimed to be placed in global markets.

8. Cultural exchange for a variety of products:

The products and services gained global orientation and exposure. It facilitated for the exchange of cultural values and beliefs.

9. Increase in employment and income:

Global placements gained momentum. Widespread job opportunities are open in MNCs. The income levels also increased.

10. Higher standards of living, Balanced human development and increase in welfare and prosperity are the other points of significance of globalization.

The adverse **effects/demerits/disadvantages of globalization** should not be lost sight of. These are given below:

1. Globalization works to the disadvantage of domestic business units.
2. It exploits human resources. Work pressure increases on the people.
3. Globalization leads to unemployment and under employment.
4. Demand for domestic goods may decline.
5. Income levels also decline.
6. Globalization creates gap between the rich and the poor.
7. Natural resources may be exploited to the advantage of MNCs.
8. Globalization, it is feared, may lead to commercial and political colonialism.

5. Bring out the challenges of globalization? Or Examine what are the challenges of International business?

Globalization is a fact of life companies have adopted international focus Indian businessman are looking around for the new partners, suppliers and buyers. Increasingly, small businesses are also going global. In our country, exports from SSI

sector account for 44% of our total exports. Thus, there is growing tendency of globalization. Increasing globalization poses several challenges to the business.

Challenges of globalization/challenges of international business:

1. Maintaining competitiveness:

Innovation-quality-cost and service are important factors to maintain competitiveness. Labour costs, interest rates, exchange rates and economies of scale make a country competitive. The way to gain competitive advantage is the ability to innovate continuously. Most successful MNCs like 3-m proves this claim. Eg: 3-m generates 30% of its annual income from products marketed in the last four years due to innovation.

2. Government and trade regulations:

Government intervention for the purpose of protecting domestic industries leads to less movement of goods and services across the borders. Many people think that government should limit competition from foreign goods in the interest of protecting local business and jobs. Eg: in the US, people question why the Japanese are allowed to set-up auto-plants in the US, while the farmers of US cannot sell rice in Japan.

Member-countries of WTO meet and negotiate periodically to discuss the ways of minimizing trade barriers.

3. Developing an international perspective:

Firms operating in international / global markets need to develop an international perspective. Three ways are important in this regard :

Experience:

Hiring people with global exposure. MNCs hire global managers with overseas perspective.

Focus:

Emphasizing global-orientation to hiring, remunerating, performance appraisal, promotions and the like.

Attitude:

Companies should screen candidates carefully for overseas assignments and depute only individuals with right attitudes.

4. Managing diversity:

Workforce of any MNC comprise people from different countries. Workforce is multi-cultured, religions, languages and dialects, educational attainment, skills, values, ages, races, genders. Managing such a workforce is a challenging task for any executive.

5. Need to maintain good corporate citizenship:

An MNC will be successful, if only it creates and sustains the image of a good corporate citizenship. Good corporate citizenship is reflected in honesty and social responsiveness.

6. Describe the strategies for going global? Or Attempt an essay on strategies in globalization?

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Strategies in globalization/globalization strategies:

1. Deciding whether to go global:

Local companies need to think about local markets. Companies operating in global industries must think and act globally. Eg: MNCs like IBM must organize globally, if it is to gain purchasing, manufacturing, financial and marketing advantages.

Before going global/international, the company must evaluate several risks and estimate its ability to operate globally certain important issues in this area:

- a. Learn to understand the preferences and buying behaviour of foreign buyers.
- b. Offer competitively to foreign buyers.
- c. Let the management have international exposure and experience
- d. Evaluate the effect of foreign regulations and political environment.

2. Deciding which markets to enter:

At this stage, decisions on a) volume of foreign sales b) number of countries to enter and c) the types of countries to enter.

- a. Most of the MNCs start small, when they go abroad. They regard foreign sales as a small part of their business other larger MNCs see foreign business as equal or even more important than their home business.
- b. It makes a better sense to operate in a fewer countries with a deeper market penetration.
- c. Ranking the countries on specific risk and political factors. A country which assures long-run returns on investments must be selected for entering.

3. Foreign market entry strategies:

Once the country has decided to go global, it decides on the best mode of entry. The usual foreign market entry strategies are:

- a. Exports and Imports
- b. Tourism and transportation
- c. Performance of services
- d. Turnkey projects, and management contracts
- e. Licensing and franchising

- f. Joint ventures
- g. Wholly-owned subsidiaries

4. Learning to handle differences:

Differences persist across countries. Fluctuations in economic conditions; exchange rates; ever-changing political environment; cultural differences are common. These must be forecasted. International managers must be forecasted. International managers must

- a. See themselves as citizens of the world
- b. Develop integrated and innovative strategies
- c. Implement such strategies supported by huge investments
- d. Understand that a poor country in R&D today may attract huge R&D establishments in future. Eg: Our country
- e. Develop an information system that keeps them informed of about political changes around the world and
- f. Inject cross-culture aspects in strategies.

5. Adjusting the management process:

The management process viz., planning, organizing, directing, staffing and controlling are differently arranged for an MNC. The management structures be developed and coordinated in global perspective. People be motivated to think and act globally.

6. Selecting a managerial approach:

An MNC should synthesise American and Japanese managerial approaches. A fusion between the Japanese and American managerial approaches is a good strategy.

7. Deciding an organization structure:

International divisions and structure; worldwide functional structure; geographic area structure; product organization; and mixed organization and matrix organization are the possible organization structures for global changes

7. What are the obstacles and prospects for globalization of Indian business?

Indian firms confined themselves to the home market. Foreign investment by the Indian firms was very significant until the introduction of the New Economic Policy in 1991.

With the New Economic Policy introduced in 1991, there has been a change. Globalization has become a BUZZ-WORD with Indian firms. Many Indian firms are expanding their overseas business by different global strategies.

Globalization is both a challenge and opportunity for Indian firms:

Challenges, problems and obstacles for globalization of Indian business are many. The main problems in the way of globalization of Indian business are as under:

1. Government policy and procedures:

Most complex, confusing and cumbersome policy and procedures are adopted in our country. Even after liberalization, government policy and procedures have not become conducive.

2. High cost:

International competitiveness of our products and services is reduced by the high cost of inputs-rawmaterial-intermediaries-power-finance-infrastructural facilities

3. Poor infrastructure:

Infrastructure in India is generally inadequate to the requirements of the country. This is a serious problem affecting the growth and competitiveness.

4. Obsolescence:

The technology, mode and style of operations are obsolete in our country. These affect the competitiveness of Indian firms.

5. Resistance to change:

Several socio-political factors resist change. This comes in the way of modernization-rationalisation and improvement in efficiency.

6. Poor quality image:

The quality of many Indian products is poor due to various reasons. Even when the quality is good, the poor quality-image India has becomes a handicap.

7. Supply problems:

Low production capacity-raw materials shortage-low profile infrastructure like power and port facilities-are responsible for Indian companies not accepting large orders.

8. Small size:

Indian firms are not able to compete with MNCs of other countries because of small size.

9. General lack of experience:

General lack of experience in managing international business is another important obstacle.

10. Marketing research and R&D:

Marketing research and R&D in other areas are vital inputs for international trade development. These are not upto the standards in our country.

11. Growing competition:

Growing competition from the developing country firms is a serious challenge to India's global business.

12. Trade barriers:

Non-tariff-barriers have been increasing in the developed countries. The trading blocs like the NAFTA, EEC, EC etc., also adversely affect India's business.

Prospects/factors favouring globalization of Indian business:

Although India has several handicaps/challenges/problems/challenges from globalization, there are a number of favourable factors and good prospects of globalisation of Indian business:

a. Largest pool of scientific and technical manpower:

Number of MBAs is increasing. Given the right environment, Indian scientists and technical personnel can do excellently. Cheap labour has special attraction for several industries.

b. Very broad resource and industrial base:

India has a very broad resource and industrial base to support a variety of businesses.

c. Dynamic entrepreneurs:

There is a considerable growth of new and dynamic entrepreneurs. They can make a significant contribution to globalization of Indian business.

d. Growing domestic market:

Growing domestic market enables the Indian companies to strengthen their position. They gain more entry into the foreign markets and to expand their foreign business.

e. Niche markets:

Several Indian companies have become very successful by niche marketing. Small Indian companies take advantage of niche marketing. A niche is a small segment of a market ignored or not properly served by large players.

f. Growing population:

Growing competition and disposable income present enormous business opportunities.

g. Trans-nationalisation:

Trans-nationalisation of world economy is an external factor, which encourages globalization of Indian business.

h. Large number of NRIs:

The large number of NRIs can contribute to the globalization of Indian business. Their contribution is growing.

i. Economic liberalization:

The economic liberalization in India is an encouraging factor of globalization. Liberalization in other countries increases the foreign business opportunities for Indian business.

j. Growing competition:

Growing competition from within the country and abroad provokes many Indian companies to look into foreign markets.

Finally, it can be concluded that many Indian companies have admirably responded to the globalization challenges.

8. What are the different modes of entry into the foreign markets? Or Explain the foreign market entry strategies for Indian companies?

Foreign market entry strategy is influenced by the a) firm and product characteristics and b) domestic and international market characteristics. The important foreign market entry strategies are the following:

1. Exporting:

When there is underutilized capacity, exporting is more attractive. Many governments provide incentives for establishing facilities for export production. Exporting is the first change in the development of international business of many companies.

2. Licensing and franchising:

International licensing is adopted as a mode of entry into foreign markets. A firm in one country permits a firm in another country to use its intellectual property. The licensor gets royalty or fees paid by licensee. Franchising involves permission granted by a parent company to another company to do business in a prescribed manner. Eg: selling the franchisor's products, using its name, production and marketing techniques. Coca-cola supplies syrup to the bottlers.

3. Contract manufacturing:

A company enters into a contract in firms in other countries to manufacture or assemble the products. It also undertakes the responsibility to market the product. This is a common practice in the international business. The company need not commit its resources for setting up production facilities. The cost of contract manufacturing is lower than manufacturing by the contractee.

4. Management contracting:

Management contracting is a low risk method of entering into foreign market. Eg: Tata Tea; Harrisons Malayalam and AVTY have contracts to manage a number of plantations in Sri Lanka. Tata Tea has a joint venture in Sri Lanka by name estate Management Services Pvt. Ltd.

The supplier brings a package of skills. This package provides an integrated service to the client without incurring any risks.

5. Turnkey contracts:

Supply, erection, commissioning of plants in the case of oil refineries, steel, cement and fertilizer plants; construction projects in foreign countries are called turnkey contracts. Governments/public sector of foreign country act as the buyer. Subcontracting can also be undertaken.

6. Wholly owned manufacturing facilities:

MNCs normally establish fully owned manufacturing facilities in foreign-lands. It indicates the physical presence as a producer abroad. The firm has complete control over production and quality. Fully owned enterprises may not be allowed in some countries.

7. Assembly operations:

Establishing overseas assembly facilities in selected markets may be another strategy. When assembly operations are labour intensive and labour is cheap in the foreign country; when the manufacture of parts and components open economies of scale, assembly operations are a good mode of entry.

8. Joint ventures:

Sharing of ownership and management of an enterprise abroad is called joint ventures. A joint venture – a foreign investor buys an interest in a local company. A local firm acquires an interest in an existing firm.

9. Third country location:

When there are no commercial transactions between two countries due to political reasons; a firm in one of these nations(which wants to enter the other market) will have to operate from a third country-base. Eg: Taiwanese entrepreneurs found it easy to enter people's Republic of China through bases in Hong Kong.

10. Mergers and acquisitions:

Mergers refer to amalgamations, viz., unification-effort of two similar companies. Acquisitions refer to absorption one financially stronger company taking over the business of the financially weaker company. It is an important market entry strategy. It is also an expansion strategy.

11. Strategic alliance:

Enhancing the long-term competitive advantage of the firm by forming alliance with its competitors, instead of competing with each other. Eg: A U.S. pharma company may use the sales promotion and distribution infrastructure of a Japanese pharma. Company to sell its products in Japan. In return, the Japanese firm can use the same strategy to sell its products in U.S.

12. Counter trade:

Instead of money payments for goods imported. The firm may export goods to the same supplier. This is called counter trade. Eg: Pepsi company gained entry into USSR by employing counter-trade.

Barter, Buy-back, Compensation deal-counter purchase etc., are some important forms of countertrade.

9. Mention the main features of WTO and its objectives?

The signing of the Final Act of the Uruguay Round by member nations of GATT in April 1994 paved the way for the setting up of the World Trade Organisation (WTO). An agreement to this effect was signed by 104 members. The WTO agreement came into force from January 1, 1995 and India has become a founder member of the World Trade Organisation by ratifying the WTO agreement on December 30, 1994. The former GATT was not really an Organisation. It was merely a legal arrangement. On the other hand, the WTO is a new international organization set up as a permanent body and is designed to play the role of a watch dog in the spheres of trade in goods, trade in services, foreign investment, intellectual property rights etc.

Objectives:

1. Promotion of liberalization and removal of tariff barriers.
2. Monitoring trade policies and developing good trade relations and trade practices.
3. Removal of quantitative restrictions.
4. Handling trade disputes.
5. Helping the producers of goods and services, exporters and importers.

Features:

1. WTO is legal entity
2. It is not an agent of the united nations
3. All the members of WTO have equal rights.
4. The agreements under the WTO are permanent and binding to the member countries.
5. WTO approach is rule based and time bound.
6. WTO has a wider coverage. It covers trade in goods as well as services and trade related aspects of IPRs.
7. WTO is a huge organization and a powerful body.

10. State the Objectives and salient features of GATT?

The main aim of GATT (General Agreement on Tariffs and Trade) is to expand international trade by eliminating various tariffs on trade and other restrictions, doing away with discriminatory practices among trading parties.

Objectives of GATT:

1. Developing fuller utilization of world resources.
2. Ensuring full employment and increasing real income and effective demand.
3. Expansion of world production and international trade.
4. Raising standards of living of the people.

Salient features of GATT:

1. GATT was neither an organization nor a court of justice, but a multilaterally agreed treaty related to tariffs imposed on goods that covered 80 percent of the world trade.
2. It was a decision making body with a set of rules for the conduct of international trade in goods and formulated mechanisms for trade liberalization.

3. It was a forum where contracting parties met from time to time to discuss and solve trade problems and also to negotiate to enlarge their trade volumes.

11. What are the important issues in GATT Uruguay Round Negotiations?

The main aim of GATT (General Agreement on Tariffs and Trade) is to expand international trade by eliminating various tariffs on trade and other restrictions, doing away with discriminatory practices among trading parties.

Uruguay Round:

Uruguay Round is the 8th and the last round of 'GATT' Trade Negotiations. This round was started in September 1986 at 'Pentadel estate', Uruguay, a developing country. This round was entirely different from the previous rounds because it included a number of aspects/subjects for negotiations.

Important issues in Uruguay Round Negotiations:

1. Tariff reduction:

Uruguay Round reduced and relaxed the tariff and paved the way for free trade among various member countries.

2. Anti-dumping:

Uruguay Round agreement furnished various rules and regulations to be followed in Anti-dumping. These anti-dumping measures can be employed by all the member countries, if dumped imports cause serious damage to domestic industries in the importing countries.

3. Dispute settlement:

Uruguay Round considered the need to review the dispute settlement system to make it more effective and to improve the efficiency and transparency.

4. Multi fibre arrangement:

Uruguay Round pleased out the import quota restrictions on textiles and clothing over a period of ten years.

5. Agriculture:

Uruguay Round reduced the agricultural subsidies and free trade in farm products and improved the market of agricultural products by reducing and relaxing various trade import barriers among the member countries.

6. Services:

Uruguay Round brought the services like Banking, Insurance, Transportation and Mobility of labour etc. Within the ambit of negotiations. The general agreement on trade in services was created and decided to remove the discriminations while granting the MFN status to the member nations with regard to trade in services.

7. TRIPs:

Trade Related Intellectual Property Rights refers to the legal ownership of a person on a product or process. Uruguay Round introduced this concept with a view to protect the owners from unauthorized copying and suggested various steps adopted by parties in respect of copy rights, trademarks, trade secrets, patents etc.

8. TRIMs:

Uruguay Round removed the quantitative restrictions and restricting the foreign investment causing damage to the nations through Trade Related Investment Measures.

The main result of Uruguay Round Multilateral Trade Negotiation was established of WTO.

12. What are the functions of WTO? Explain the difference between GATT and WTO?

The signing of the Final Act of the Uruguay Round by member nations of GATT in April 1994 paved the way for the setting up of the World Trade Organisation (WTO). An agreement to this effect was signed by 104 members. The WTO agreement came into force from January 1, 1995 and India has become a founder member of the World Trade Organisation by ratifying the WTO agreement on December 30, 1994. The former GATT was not really an Organisation. It was merely a legal arrangement. On the other hand, the WTO is a new international organization set up as a permanent body and is designed to play the role of a watch dog in the spheres of trade in goods, trade in services, foreign investment, intellectual property rights etc.

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Functions of WTO:

The WTO has the following five specific functions:

1. The WTO shall facilitate the implementation, administration and operation and further the objectives of the Multilateral Trade Agreements and shall also provide the framework for the implementation, administration and operation of plurilateral Trade Agreements.

2. The WTO shall provide the forum for negotiations among its members concerning their multilateral trade relations in matters dealt with under the Agreements.
3. The WTO shall administer the 'Understanding the Rules and Procedures Governing the Settlement of Disputes'.
4. The WTO shall administer the 'Trade Review Mechanism'
5. With a view to achieving greater coherence in global economic policy making, the WTO shall cooperate, as appropriate, with the IMF and IBRD and its affiliated agencies.

The general council will serve four main functions:

1. To supervise on a regular basis the operations of the revised agreements and ministerial declaration relating to a) goods, b) services and c) TRIPs;
2. To act as a Dispute Settlement Body;
3. To serve as a Trade Review Mechanism; and
4. To establish Goods Council, Services Council and TRIPs Council, as subsidiary bodies.

To become a member of the WTO, a country must completely accept the results of the Uruguay Round.

Differences between GATT and WTO

GATT	WTO
GATT was ad hoc and provisional	WTO and its agreements are permanent
GATT had contracting parties	WTO has members
GATT system allowed existing domestic legislation to continue even if it violated a GATT agreement	WTO does not permit this
GATT was less powerful, dispute settlement system was slow and less efficient, its ruling could be easily blocked	WTO is more powerful than GATT, dispute settlement mechanism is faster and more efficient, very difficult to block the rulings.

13. Write short notes on a) GATS b) TRIMS c) TRIPS

a. GATS

The General Agreement on Trade in Services (GATS) which extends multilateral rules and disciplines to services is regarded as a landmark achievement of the UR, although it achieved only little in terms of immediate liberalisation.

In short, the GATS covers four modes of international delivery of services.

1. Cross-border supply (trans border data flows, transportation services)
2. Commercial presence (provision of services abroad through FDI or representative office).
3. Consumption abroad (tourism)
4. Movement of personnel (entry and temporary stay of foreign consultants).

While industrial countries have offered market access commitment of some kind on over half (about 54 percent) of their service activities, developing countries did so only on less than one-fifth (about 17 percent) of their service categories, Tourism and

travelrelated services are the only activities in which a substantial number of developing countries made commitments.

The framework of GATS includes basic obligation of all member countries on international trade in services, including financial services, telecommunications, transport, audio visual, tourism and professional services, as well as movement of workers.

Among the obligations is a most favoured nation (MFN) obligation that essentially prevents countries from discriminating among foreign suppliers of services.

Another obligation is the transparency requirements according to which each member country shall promptly publish all its relevant laws and regulations pertaining to services including international agreements pertaining to trade in services to which the member is a signatory. Further, each member shall also respond promptly to all requests for specific information, by any other member, pertaining to any aspect of the service covered by the GATS. Each member shall also establish one or more enquiry points to provide specific information to other members. However, no member needs to provide any confidential information, the disclosure of which would impede law enforcement, or otherwise be contrary to public interest, or which would prejudice legitimate commercial interests of particular enterprise, public or private.

The GATS lays down that increasing participation of developing countries in world trade shall be facilitated through negotiated commitments on access to technology, improvements in access to distribution channels and information networks and the liberalization of market access in sectors and modes of supply of export interest to them.

b. TRIMS:

Trade Related Investment Measures (TRIMs) refers to certain conditions or restrictions imposed by a government in respect of foreign investment in the country. TRIMs were widely employed by developing countries.

The agreement on TRIMs provides that no contracting party shall apply any TRIM which is inconsistent with the WTO articles. An illustrate list identifies the following TRIMs as inconsistent.

1. Local content requirement (i.e., a certain amount of local inputs be used in products)
2. Trade balancing requirements (i.e., imports shall not exceed a certain proportion of exports)
3. Trade and foreign exchange balancing requirements
4. Domestic sales requirements (i.e., a company shall sell a certain proportion of its output locally)

The agreement requires the notification of all WTO-inconsistent TRIMs and their phasing out within two, five and seven years by industrial, developing and least developed countries respectively. Transition period can be extended for developing and least developed countries if they face difficulties in eliminating TRIMs.

c. TRIPS

One of the most controversial outcomes of the UR is the agreement on Trade Related Aspects of Intellectual Property Rights including Trade in Counterfeit Goods (TRIPs). TRIPs along with TRIMs and services were called the “new issues” negotiated in the Uruguay Round.

Anti-dumping measures:

The UR agreement provides greater clarify and more detailed rules concerning the method of determining dumping and injury, the procedure to be followed in antidumping investigations, and the duration of antidumping measures. It also clarifies the role of dispute-settlement panels in conflicts relating to anti-dumping actions taken by national authorities.

A product is regarded as dumped when its export price is less than the normal price in the exporting country or its cost of production plus a reasonable amount for administrative, selling and any other costs and for profits.

Anti-dumping measures can be employed only if dumped imports are shown to cause serious damage to the domestic industry in the importing country. Further, antidumping measures are not allowed if the margin of dumping, (i.e., the price differences) is de minimis (defined as 2 percent of the export price of the product) or the volume of dumped imports is negligible (less than 3 percent of imports of the product in question)

Safeguard actions:

Members may take safeguard actions, i.e., import restrictions to protect a domestic industry from the negative effects of an unforeseen import surge, if a domestic industry is threatened with serious injury. The UR agreement, however, prohibits the use of such actions where they constitute grey-area measures, including voluntary export restraints, orderly marketing arrangements or other similar measures applied on either exports or imports. The existing grey area measures are to be phased out by 1999. Further, the agreement provides for discipline on the use of all safeguard measures, including time limits, requirements for safeguard investigation, and nondiscrimination (generally) among sources of supply.

Safeguard measures would not be applicable to developing countries where their share in the member country’s imports of the product concerned is relatively small.

14. Explain the achievements/role played by WTO in the global economies? Or Make out an analysis of the achievements of WTO and Criticism against WTO? Or Evaluate WTO?

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2. It is not an agent of the united nations
3. All the members of WTO have equal rights.
4. The agreements under the WTO are permanent and binding to the member countries.
5. WTO approach is rule based and time bound.
6. WTO has a wider coverage. It covers trade in goods as well as services and trade related aspects of IPRs.
7. WTO is a huge organization and a powerful body.

WTO has come to play a very important role in the global, and thereby, national economies. National economic policies are significantly influenced by the principle, policies and agreements of WTO. Because of this there are severe criticism against WTO, particularly in the developing countries. In fact, WTO has both positive and negative impacts. The growing acceptance of GATT/WTO despite their shortcomings, is evinced by the increase in the number of member countries. When the GATT was signed, in 1947, only 23 nations were party to it. The member ship of the WTO increased from 128 in July 1995 to 151 countries in May 2008 and a number of nations more have been negotiating membership. It is interesting to note that the Peoples Republic of China, which was one of the original signatories of the GATT quit it in the late 1940s following the assumption of power by the communist party, but got admitted to the WTO, after prolonged negotiations, with effect from January 1st,2002. The WTO members now account for about 95 percent of the international trade indicating the potential of the WTO in bringing about an orderly development of the international trade.

Benefits of WTO:

1. GATT/WTO has made significant achievements in reducing the tariff and non-tariff barriers to trade. Developing countries too have been benefiting significantly out it.
2. The liberalization of investments has been fostering economic growth of a number of countries.
3. The liberalization of trade and investment has been resulting in increase in competition efficiency of resource utilization, improvement in quality and productivity and fall in prices an acceleration of economic development.
4. WTO provides a forum for multilateral discussion of economic relations between nations.
5. It has a system in place to settle trade disputes between nations.
6. WTO has a mechanism to deal with violation of trade agreements.
7. WTO does considerable research related to global trade and disseminates a wealth of information.

Drawbacks/criticisms:

As mentioned above, the WTO has been subjected to a number of criticisms. Important drawbacks/criticisms include the following:

1. Negotiations and decision making in the WTO are dominated by the developed countries.
2. Many developing countries do not have the financial and knowledge resources to effectively participate in the WTO discussions and negotiations.

3. Because of the dependence of developing countries on the developed ones, the developed countries are able to resort to arms-twisting tactics.
4. Many of the policy liberalizations are done without considering the vulnerability of the developing countries and the possible adverse effect on them.
5. The WTO has not been successful in imposing the organisation's disciplines on the developed countries.
6. The developing countries have, in general, been getting a raw deal from the WTO.

It may also be noted that it has become a trend to blame WTO even for matters for which it is not responsible.

It is necessary that the developing countries do their homework properly before they go to the negotiating table, stand united to protect their common interests and formulate and implement strategies to combat the threats and to take advantage of the opportunities of the emerging world order.

The tragedy, however, is that not only that the developed countries are not earnestly implementing the provisions of the UR agreement which will benefit the developing countries, but also they tend to become more protectionist in several respect. The irony is that while the developing countries have been increasingly opening up their markets, the developed countries have been increasing the barriers to the developing countries in several respects.

15. "Many developing countries have benefited by joining WTO. India is no exception"? Bring out implications for India? Or Present the views in support and against our country becoming the member of WTO?

"Many developing countries have benefitted by joining WTO. India is no exception." This statement brings to light the implications for India in joining WTO. Divergent views have been expressed in support and against our country becoming a member of the WTO.

Arguments for joining WTO:

1. Over 3/4th of WTO members are developing countries. We are a developing country succeeding in the implementation of liberalization programmes. The member countries have chosen to join WTO after careful deliberations. They have perceived economic gains for themselves by becoming WTO members. India should not be an exception.
2. As long as India needs to export and import, it makes a sense to be part of the multilateral trading system.
3. Being a member of WTO, India can benefit from the International Trade Centre. This centre responds to requests from developing countries for assistance in formulating an implementing export promotional programmes. Market-information is provided and advice on export markets and marketing techniques is given by this centre.
4. India will obtain large gains in the sectors of clothing, agriculture, forestry, fishery products and processed food and beverages. By becoming a member in WTO, India's trade gains increase on large-scale.
5. By being a member, India need not have multiple bilateral trade agreements and negotiations with other countries with WTO membership, or country has the advantage of having trade-links with the other 147 member countries. The role of WTO is like that of a telephone exchange in this context.
6. WTO provides for a multi-lateral set of rules, which are beneficial to our country. This ensures stability to the international trading system.
7. There are several areas in the Uruguay Round Package that relate to market access. The more important ones are tariffs, textiles and agriculture. India's position in all these sectors is advantageous to her. The provisions are favourable to the country.

8. Being the second most populous country in the world, India stand to benefit most, if the WTO liberalises market access for services. GATS is another area, when operationalised benefits India immensely.

Seen from the above view-points, it is a fit case for India joining the WTO. Arguments against WTO membership are equally strong. The major arguments in this angle are stated below:

1. Removal of trade barriers will not guarantee expansion in world-trade. India is short in export infrastructure, political environment, technology, assured supply of exportable goods.
2. India and other developing countries have blindly walked into the trap laid by the developed countries. Along with IMF and World Bank; the WTO represents the interests of developed countries.
3. Because of the new rules, disciplines and potential for trade harassment, gains in tariff concessions or removal of quotas are lost
4. The worst fears expressed about the WTO agreement relate to the steep hike in the prices of drugs and agricultural inputs.

Conclusions:

Keeping the argument against joining WTO apart; WTO membership will prove advantages to India in terms of the global markets for our goods and services. We must improve the quality of our goods and services; cut down costs and wastages; and improve our competitive strength. Then only, we can sell our products in global market and survive in the competitive global market.

16. Attempt a note on economic integration?

Economic integration refers to different kinds of arrangements between or among the countries. The countries link their economies closer in part or total. These countries maintain the cohesiveness between or among them through TARIFFS. They discriminate against the countries (which are not parties to the agreement) through tariffs. They also discriminate against goods produced by other countries.

Different kinds of economic integration:

1. Free Trade Area:

If a group of countries agree to abolish all trade restrictions and barriers among them; such a group is called the Free Trade Area. They may also go for charging low rates of tariff. Eg: European Free Trade Association. Members of EFTA charge, low rates of tariff or abolish them among themselves. They charge different rates to nonmembers.

2. Customs union:

The member countries adopt a uniform commercial policy of barriers and restrictions with regard to non-member countries. Member countries abolish all the restrictions and barriers on trade among themselves or charge low rates of tariff. Eg: The 19th century German Zollverein is an example of customs union.

While there is no uniform commercial policy of barriers an restrictions on nonmembers in Free Trade Area; there is a uniform policy in the customs union. Customs union is advance degree to FTA.

3. Common market:

In addition to the above two characteristic features in common union, the common market has an extra feature. That is allowing free movement of human resources and capital among the member countries. Common market is advanced to customs union. Eg: European Common Market with 15 member countries.

4. Economic union:

In addition to the two characteristic features of customs union and free movement of human resources and capital in common market, the Economic union follows a uniform monetary policy and fiscal policy among the member countries. Economic union is advanced to common market.

In brief:

ECONOMIC UNION > COMMON MARKET > CUSTOMS UNION > FREE TRADE AREA. **Advantages**

of the economic integration:

1. Factors of production of the countries are combined member countries can have economies of division of labour and specialization.
2. Internal reallocation of financial resources is possible.
3. Import duties are reduced. Prices of the products and services are reduced. These are possible due to elimination of tariffs and barriers among the member countries.

17. Examine the various kinds of Trading blocs?

EEC, NAFTA, ASEAN, and SAARC are the important trading blocs in the world. These important trade-blocs are explained below:

a. EEC:

EEC stands for European Economic Community. The European Economic Community is also known as European Common Market. Originally six countries, viz., France, Federal Republic of Germany, Italy, Belgium, Netherlands and Luxembourg formed into the European Economic Community (EEC) by the Treaty of Rome, 1957. It came into being on 1st January 1958. The number of member countries of the EEC increased from six to nine on January 1st, 1973 as United Kingdom, Ireland and Denmark joined the community. Greece joined the EEC in 1981 and Portugal and Spain joined in 1984. Austria, Finland and Sweden joined the community on January 1st, 1986. Now the EEC has 15 members.

The EEC as members are i) the country must be European country and ii) it must be a democratic country.

Objectives:

EEC consists of three organizations, viz., the European Coal and Steel Community (ECSC), the European Economic Community (EEC) and the European Atomic Energy Community (Euratom). ECSC functions for 50 years and the EEC and Euratom functions for an unlimited time duration.

The main objective of the EEC according to Article 2 of the Rome Treaty of 1957 is:

“ The community shall have its task, by setting up a common market, to promote throughout the community a harmonious development by economic activities, a continuous and balanced expansion, an increase in stability and accelerated raising of the standard of living and closer relations between the Member States belonging to it.”

Activities of the EEC:

The activities of the EEC based on the objectives are:

- Elimination of custom duties, quantitative restrictions with regard to exports and imports of goods among member countries.
- Establishment/formulation of a common customs tariff and common commercial policy with regard to non-member countries.
- Abolition of all obstacles for movement of persons, services and capital among member countries.
- Formulation of common policy in the area of agriculture.
- Formulation of a common policy in the area of transport.
- Establishment of a system which would ensure competition among member countries.
- Application of programmes in order to coordinate the economic policies of the member countries.
- Application of the procedures and programmes to control the disequilibrium in the balance of payments of member countries.
- Approximation of legislation of the member governments to the extent required for the proper functioning of the common market.
- Establishment of European Social Fund with a view to enhance the employment opportunities for workers and to improve their living standards.
- Establishment of European Investment Bank for mobilization of fresh resources and to contribute to the economic development of the community.
- Development of association with foreign countries to promote jointly the economic and social development of the EEC.

Organization of EEC:

European council is the main administrative body of the EEC. Each member country is represented by a minister in this council. Each member country holds the presidency of the council for six-monthly period by rotation. A committee of permanent representatives acts as the secretariat of the council. This committee is also called, “Corper”. The Corper makes all important decisions. The Corper is the link between the EEC and member governments.

Functioning of the EEC:

Complete customs union became reality among the member countries of the EEC by July 1st, 1968. We study the functioning of the EEC under the following aspects: Common agricultural policy, Common fisheries policy, European Monetary Union, Factor mobility, Regional development policy, and Common transport policy.

Different member countries of the EEC were following different agricultural policies before the formation of EEC. For example, the then West Germany and Italy fixed high support prices due to the inefficiency of their agricultural sector. The vice versa was true in case of France and Netherlands. The treaty favoured common agricultural policy.

One market:

The EEC has emerged as one market from January 1st, 1995. The political national boundaries are erased for the business and economic activities – goods, services, people and capital can move freely from one country to the another of the EEC. Now, the member countries do not impose any import tariffs. Imports tariffs of the member countries do not impose any import tariffs. Import tariffs of the member countries are replaced by the community tariffs system. This factor provides easy access of total EEC to the exporters.

Retrospect:

Thus, the EEC could create a single and largest market by removing the obstacles for the free movement of goods, services, persons and capital among the member countries of the EEC. The single market enlarged the production, trade, income, investment and employment in all the member countries.

The balance of payments position of all the member countries has become strong. However, formation and successful functioning of EEC created a trade block for the emergence of the frontier free global trade.

b. NAFTA:

The North American Free Trade Agreement (NAFTA) came into being on January 1, 1994. The most affluent nations of the world, i.e., USA and Canada along with Mexico- a developing country joined together to form a trade bloc. A free trade agreement was signed by USA and Canada in 1989. This was extended to Mexico in 1994. NAFTA is expected to eliminate all tariffs and trade barriers among these countries by 2009. However, internal tariffs on a large number of product categories were removed already.

NAFTA has a population of 363 million and hence it is one of the significant trading areas in the globe.

Objectives:

The objectives of the NAFTA include:

- To create new business opportunities particularly in Mexico.
- To enhance the competitive advantage of the companies operating in USA, Canada and Mexico in wider international markets.
- To reduce the prices of the products and services by enhancing the competition.
- To enhance industrial development and thereby employment for the investors. □
To provide stable and predictable political environment for the investors.

- To develop industries in Mexico in order to create employment and to reduce migration from Mexico to USA.
- To assist Mexico in earning additional foreign exchange to meet its foreign debt burden.
- To improve and consolidate political relationship among member countries.

Measures:

The measures as per the agreement of NAFTA include:

- Opening up of government procurement markets in each member country of NAFTA
- Residents of NAFTA countries can invest in any other NAFTA countries freely.
- Protection of intellectual property rights of the NAFTA member countries
- Simplification and harmonization of product standards in all the member countries of NAFTA.
- Free flow of employees and business people from one member country to another. Prevention of non-Mexican firms assembling goods in Mexico.
- Avoidance of re-export of the products imported by any member country from the third party. This condition is not applicable, in case certain percentage of manufacturing costs are incurred in the importing country. This percentage is 50 in case of USA and Canada and 80 in case of Mexico. □ Pollution control along the USA-Mexico border.

Critical appraisal:

It was felt that the emergence of NAFTA enables for the further development of USA and Canada and for the significant development of Mexico. Further, the free flow of capital and human resources enables for achieving equilibrium in the regional development.

However the formation of NAFTA is criticized on the following grounds:

- Most of the US industries will shift to Mexico has less stringent environmental protection and health and safety legislations than USA.
- NAFTA agreement is implemented without prior preparations. Therefore, Mexican economy may face adjustment and assimilation problems than USA and Canada.

Despite these criticisms, the emergence of NAFTA helps all the three member countries in the area of industrial development, increase in employment opportunities, incomes and living standards of the people. However, this trade block is a major hurdle for the globalization of business as two major developed countries are involved in this agreement.

c. ASEAN:

A group of six countries, viz., Singapore, Brunei, Malaysia, Philippines, Thailand and Indonesia, agreed in January 1992 to establish a Common Effective Preferential Tariffs (CEPT) plan. This plan helped to create an Association of South-East Asian Nations

(ASEAN) free trade area in 15 years with effect from January 1993. The CEPT allows for tariffs cut ranging from 0.50 percent to 20.00 percent beginning with 15 products.

The emergence and successful operation of EEC and NAFTA gave impetus for the forming of ASEAN. The ASEAN member countries have developed economically at a fast rate in the globe. Their strength is well educated and skilled human resources. This strength enabled them to achieve faster industrialization. Further the ASEAN member countries are rich in oil, mineral resources, agricultural goods and modern industrial products. These countries invite and allow the free-flow of foreign capital.

The formation of ASEAN enable the member countries to have close cohesiveness, share their economic and human resources and achieve synergy in the development of their agricultural sectors, industrial sectors and service sectors.

The common historical and cultural background made the member countries to maintain their unity and solidarity by establishing a trade block. ASEAN countries have the determination to develop south-east Asia a nuclear weapons free area and a zone of peace, freedom and neutrality.

ASEAN Free Trade Area (AFTA):

The ASEAN countries are vigilant of the developments in the international environment like the formation NAFTA, SAARC and the introduction of Euro. In view of these developments, the ASEAN countries formed the ASEAN Free Trade Area (AFTA) in September 1994. The AFTA initially set to function for 10 years in order to develop inter ASEAN trade.

The objectives of the AFTA are:

- To encourage inflow of foreign investment into this region.
- To establish free trade area in the member countries.
- To reduce tariff of the products produced in ASEAN countries. 40% value addition in the ASEAN countries to the product value is treated as manufactured in ASEAN countries.

d. SAARC:

The successful performance of EEC, NAFTA and other trade blocks in the economic development of the member countries and in improving the employment opportunities, incomes and living standards of the people of the region gave impetus for the formation of South Asian Association for Regional Cooperation(SAARC).

India, Bangladesh, Bhutan, Pakistan an Nepal. The Maldives and Sri Lanka adopted a declaration on SAARC in August 1983. The charter of the SAARC was formally adopted in December 1985 by the heads of the member countries.

Objectives:

The objectives of the SAARC are:

- To improve the quality of life and welfare of the people of the SAARC member countries.
- To develop the region economically, socially and culturally.

- To provide the opportunity to the people of the region to live in dignity and to exploit their potentialities.
- To enhance the self-reliance of the member countries jointly.
- To provide conducive climate for creating and enhancing mutual trust, understanding and application of one another's issues.
- To enhance the mutual assistance among member countries in the areas of economic, social, cultural, scientific and technical skills.
- To enhance the co-operation with other developing economies.
- To have unity among the member countries regarding the issues of common interest in the international forums.
- To extend co-operation to other trade blocks.

Organization structure:

The council of the SAARC is the highest policy making body.

The council is represented by the heads of the government of the member countries.

The council meets once in two years. This council is assisted by the 'Council of Ministers.'

The council of ministers is represented by the foreign ministers of member governments. It formulates policies, reviews the functioning and decides the new areas of co-operation, establishes additional mechanism, decides the issues of general interests to the SAARC member countries. The council meets twice a year and more times, if necessary. The council of ministers is assisted by the standing committee, programming committee and technical committee.

SAARC Preferential Trading Arrangement (SAPTA):

The council of ministers have signed the SAARC Preferential Trading Arrangement agreement on April 11, 1993.

Objectives of SAPTA:

The objectives of SAPTA are:

- To gradually liberalise the trade among member countries of SAARC
- To eliminate trade barriers among SAARC countries and reduce or eliminate tariffs.
- To promote and sustain mutual trade and economic co-operation among member countries.

Administration of SAPTA:

SAARC Preferential Trading Arrangement agreement would be administered on the following lines:

- The benefits to the member countries would be accorded on equitable basis of reciprocity and mutuality.
- The agreement would be improved step by step through mutual negotiations.

- The agreement has taken the special needs of the less developed countries into consideration.

Product Areas:

All raw materials, semi-finished products and finished products are included for mutual concessions.

Tariffs:

Concessions would be given in tariffs, Para-tariffs, non-tariffs and trade measures. Special treatment for the least developed countries would be provided in the following ways:

- Providing technical assistance, establishment of industrial and agricultural projects in order to boost up their exports.
- Enhancing their exports by eliminating non-tariff and Para-tariff barriers, providing duty free access etc.
- Establishing training facilities in the areas of export trade.
- Providing export credit insurance and market information. □ Entering into long-term contracts.

e. EFTA:

The European Free Trade Association (EFTA) was formed in 1959. The member countries of EFTA include: Austria, Portugal, Sweden and Switzerland. The associate member countries are: Finland and Iceland, Great Britain and Denmark.

Objectives:

The objectives of EFTA are:

- To eliminate almost all tariffs among member countries.
- To abolish the trade restrictions regarding imports and exports of goods among member countries.
- To enhance economic development, employment, incomes and living standards of the people of the member countries.
- To enable free trade in Western Europe.

The EFTA achieved most of its objectives during its 40 years of existence. EFTA does not regulate the agriculture and economy of the member countries and members' trade outside the EFTA.

The EFTA is managed by a council. Each member country is represented by its representative to the EFTA council. The EFTA Council makes policy decisions of the organization. Secretary-General implements the policies.

f. LAIA:

Latin American Free Trade Association (LAFTA) on the lines of EFTA was formed in 1960. The countries signed the LAFTA agreement were Argentina, Brazil, Chile, Mexico,

Paraguay, Peru, Uruguay, Colombia, Ecuador, Venezuela and Bolivia. Later the Latin American Integration Association (LAIA) replaced LAFTA

Objectives:

The objectives of LAIA are:

- To eliminate restrictions on trade among the member countries and □
- To reduce the customs and tariffs and eliminate them gradually.

Organization structure:

LAIA is managed by a Council of Ministers. Foreign Ministers of the member countries represent the council. The Council of Ministers is assisted by a conference of contracting parties which makes discussions on issues requiring a joint resolution of the members and a permanent Executive Committee. Executive Committee implements the treaty. The Executive Committee is assisted by a secretariat.

Operations:

Members prepare a list of goods on which they consider duty reductions. Member countries negotiate once in three years for complete exemption of tariffs and decide the list of products eligible for complete exemption of tariffs. In fact, they include all the products which are traded in the region in the list. More favourable terms are granted for the less developed countries of the region.

Critical appraisal:

The performance of the LAIA is only modest. The reasons for modest performance include:

- Delay and negative approach of the members in preparing common list.
- High cost of transportation.
- Contentment of the members with the sheltered market. □ Forces of nationalism.

Additional question

- 1. Bring out clearly the impact of Liberalisation - Globalisation and Privatisation on business? Or Examine the positive and negative affects of Liberalisation - Globalisation and Privatisation?**

Impact of liberalization:

Liberalization advocates the removal of barriers to international trade in goods and services; the opening up of FDI; liberalization of short-term portfolio flows; the creation of a standardized patent regime regulating technology transfers and intellectual property and simplification of all norms on travel.

Liberalisation reduces domestic prices offers major opportunities for export to the poor nations- channels world savings to low capital accumulated countries-offers high rate of investment-accelerates the transfer of modern technology to backward countries. As a result of this, global economic efficiency improves.

Liberalization improves global income distribution-equalises the factors of production across nations.

Impact of Globalization:

Pros/merits/advantages of globalization:

1. Free flow of capital:

In globalization, barrier on flow of foreign capital are removed to a larger extent. So, it allows for free flow of capital.

2. Free flow of technology:

Technology agreements among the countries is a feature. Technology transfers are freely allowed.

3. Rapid-rise in industrialization:

Due to globalization, industrialization rises. Manufacturing facilities are created in various locations. Global marketing strategies are developed company's outlook changes to global.

4. Spread of production facilities throughout the globe:

Eg: Mazda's sports car –"MX-5 Miata" was designed in California; had its prototype created in England; was assembled in Michigan and Mexico; using advanced electronic components invented in New Jersey and fabricated in Japan; financed from Tokyo and New York and marketed globally. This is the fruit of globalization.

5. Globalization ensures balanced development of world's economy:

Due to relocation of manufacturing facilities in underdeveloped countries, development can be seen. Eg: Many Indian construction companies undertake jointventures and infrastructure-projects in Middle East, Africa, Sri Lanka, Afghanistan, Nigeria due to liberalized trade policy.

6. Increase in production and consumption:

Deregulation of licensing and relaxation in production capacities led to outputgeneration very largely. As a result, consumption levels increased.

7. Lower price and high quality:

Indian industries became more and more competitive-edge. Production of goods with high quality given more emphasis, as the products aimed to be placed in global markets.

8. Cultural exchange for a variety of products:

The products and services gained global orientation and exposure. It facilitated for the exchange of cultural values and beliefs.

9. Increase in employment and income:

Global placements gained momentum. Widespread job opportunities are open in MNCs. The income levels also increased.

10. Higher standards of living, Balanced human development and increase in welfare and prosperity are the other points of significance of globalization.

The adverse effects/demerits/disadvantages of globalization should not be lost sight of. These are given below:

1. Globalization works to the disadvantage of domestic business units.
2. It exploits human resources. Work pressure increases on the people.
3. Globalization leads to unemployment and under employment.
4. Demand for domestic goods may decline.
5. Income levels also decline.
6. Globalization creates gap between the rich and the poor.
7. Natural resources may be exploited to the advantage of MNCs.
8. Globalization, it is feared, may lead to commercial and political colonialism.

Impact of Privatization:

Government net-worth will rise to the extent that private ownership leads to an increase in efficiency and the government's share in this gain.

The macro economic effects of privatization-effects of an increase in the deficit financed by privatization should be similar to those resulting from debt-financed fiscal expansion.

Use of proceeds to reduce external debt provides for an automatic inflow of capital linked to privatization. Reduction of domestic debt may improve domestic liquidity position.

Privatization resources are saved rather than spent. Privatization leads to large decline in deficits.

Private firms are more efficient than the PSUs. Privatization serves as a representative for growth-potential for economy.